The People's Army

China's Big Red flexes business muscles

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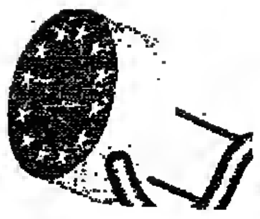

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Creating a free market in power and gas

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FINANCIAL TIMES

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Islamic gunmen kill West Bank rabbi in attack

Islamic gunmen killed a rabbi and wounded an Israeli policeman near Hebron on the occupied West Bank. Hamas, the main opponent of the Israel-PLO peace deal, claimed responsibility, while settler leaders claimed authorities had done nothing to bolster security in the area since two Israelis were killed in a guerrilla attack earlier this year. Earlier, Israeli chief of staff, Lt-Gen Ehud Barak, warned the cabinet that Israel could expect an increase in Palestinian attacks. Page 4

Inquiry looms for Berlusconi: Italy's embattled prime minister, Silvio Berlusconi, is facing another turbulent week, including the prospect of interrogation by Milan magistrates nver corruption allegations and a threatened general strike on Friday. Page 14

EU to tackle enlargement: The German presidency of the European Union will today seek agreement on a blueprint for bringing central and eastern European countries into the EU around the turn of the century, at a meeting of EU foreign ministers in Brussels. Page 2

Saudis propose balanced budget: Saudi Arabia is aiming to balance its budget by the end of the decade under a plan to privatise some state industries, "rationalise" state subsidies and invite greater private investment in infrastructure. Page 4

Ukraine takes to grassroots privatisation

More than 150 large and medium scale enterprises in the Ukraine have been privatised in recent months, in spite of a system of daunting complexity and the failure of Ukraine's first post-Independence government to launch serious economic reforms. Western officials bope that under the new leadership of President Leonid Kuchma (above), Ukraine will begin a well-publicised privatisation programme. Page 14; France and UK block reform aid, Page 3

Chechen regime repulses attack: The president of Chechnya, Dzhokhar Dudayev, survived a determined attempt to overthrow him at the weekend as another burst of fierce fighting erupted in the Cancasian republic. Page 2

Investors target eastern Europe: Portfolio investment in eastern Europe is set to surge as emerging-market funds raise more than $300m to take advantage of mass privatisation in Russia and its neighbours. Page 15

UK societies face job cuts: Generous voluntary redundancy terms are likely to be put to the 27,000-plus staff of Halifax and Leeds Permanent, two of the UK's largest building societies, as part of plans for their merger. Page 6; Editorial Comment, Page 13; Competitinn burdle, Page 16

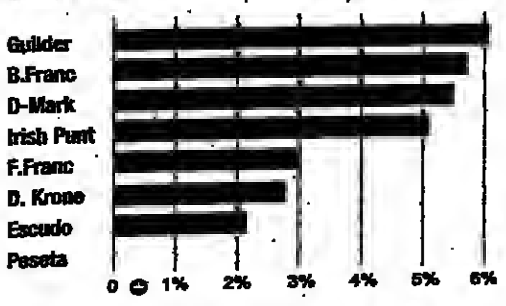
Economic accord boosts ties: Russia and Japan signed agreements to improve economic ties and postpone Russian trade debts in a small step towards the normalisation of their strained relations. Page 5

Employers' liability shortfall: Many UK companies face difficulties in obtaining adequate insurance cover from next year for deaths and injuries at work, insurance experts warn. Page 6

Air crash victims seek compensation: Survivors and families of victims of a 1992 DC10 crash in Portugal in which 56 people died have demanded that the airline, Martinair Holland, pay them a total of up to 28 million guilders ($16m) in compensation.

European Monetary System: In a week during which the Bundesbank council left German short term interest rates unchanged, the order of currencies in the EMS grid was unchanged. The gap between the strongest and weakest currency grew slightly. Currencies, Page 23

EMS: Grid November 25, 1994



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permited to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

French headmasters march: Thousands of French secondary school headmasters demonstrated in Paris to protest against a sbortage of funds and a growing workload.

Smokeless cigarette: RJ Reynolds, US tobacco company, has developed a new, virtually smokeless cigarette, marking its latest attempt to combat the anti-smoking sentiment sweeping the US. Page 5

Silver coins salvaged: Treasure hunters in Dubai said they had recovered silver coins worth $70m from the wreck of a US merchant ship, the John Barry, torpedoed by a German U-boat off coast of Oman in 1944.

IMF aid for Russia at risk in row over budget

By John Lloyd in Moscow

Resistance by Russia's parliament to tough government budget plans was threatening the loss of massive foreign aid as an International Monetary Fund team arrived In Moscow at the weekend for crucial talks.

In the coming weeks the government will face a harsb choice between placating the parliamentary deputies and losing the chance of aid – which might total $13bn for 1995 – or meeting the IMF's criteria and provoking a confrontation witb the Duma, or lower bouse. The IMF's team of senior officials is to begin final talks on various forms of assistance.

Officials say the team has tough questions about next year's budget and is determined to tighten its assumptions and projections. The IMF does not believe the projections for tax revenues will be met, or that spending can be kept within the forecasts.

However, the government was warned on Friday by leading deputies, including those from parties that back economic reforms, that even the present budget proposal was too severe to attract majority support. The Duma voted overwbelmingly to form a joint parliamentary-government committee to work on the budget and propose changes, and report back before December 10.

Deputies representing special interests such as the agriculture and defence industries have been particnlarly aggressive in demanding much higher spending than is foreseen.

Mr Mikhail Zadornov, head of the parliamentary budget committee, said the budget was "completely unrealistic" in almost every respect: in its assumptions of the level of tax revenue, of the sale of treasury bills and on its central innovation to reject any funding from central bank credits, the main engine of inflation in previous years.

President Boris Yeltsin called together national and regional leaders in tbe Kremlin on Saturday to express his apparently full support for the budget. He claimed that the crisis in the economy was "close to being overcome" and said that there could be "no way back to high uncbecked inflation". "The period of retreats and inconsistent half decisions should be left behind with 1994, so that in 1995 we can advance towards completing financial stabilisation and proceeding towards economic recovery and progress," he said.

Mr Victor Chernomyrdin, the prime minister, gave an even more glowing prospect – saying that tbe budget strategy could make "1995 the year of financial stabilisation, 1996 tbe year of overcoming economic depression and 1997 the year of steady economic growth". He added that the government was willing to work with the Duma to change "the structure and volume of revenuea" in the budget – but insisted, as did Mr Yeltsin, that its principles, including the refusal to use central bank credits, were non-negotiable.

The only room for compromise could come if the Duma refrains from confronting the government and does not pass the budget. In that case, the government would fund the budget montb by month, as allowed under the constitution.

US Republican leader blames UK for 'complete breakdown of Nato'

Dole calls on UN to quit Bosnia

By George Graham in Washington, Laura Silber in Belgrade and Bruce Clark in London

A leading US politician blamed Britain and France yesterday for a "complete breakdown" of the Atlantic alliance and called on the United Nations to withdraw from Bosnia, where up to 400 peacekeepera were being detained by the Bosnian Serbs.

Senator Robert Dole, who will lead the Republican majority when the new Congress meets in January, also called for the immediate lifting of the UN embargo on arms supplies to the Bosnian government.

"Get the [UN] soldiers out of the way. Pull 'em out," Mr Dole said, in an outhurst of frustration at European nations which cite the safety of their troops in Bosnia as an argument against tougher military intervention.

"I think we have a complete breakdown of Nato," be added, saying that be held the "British and French, and primarily the British" responsible.

The senator's remarks reflected indignation over last week's refusal by European members of Nato to back a US plan that would have sbored up tbe enclave of Bihac, a stronghold of the Bosnian government, using Nato air power.

Lull to the battle: some of the rebel Moslem soldiers led by Fikret Abdic take a break yesterday from fighting Moslem government troops near the western Bosnia village of Bugar, 10 km north of tbe beleaguered town of Bihac

Picture: Reuter

In Sarajevo, the UN said Bosnian authorities had accepted its latest proposal for a ceasefire in Bihac, wbere tbe Serbs bave almost encircled government positions and encroached on a "safe area" notionally protected by UN resolutions.

UN officials said fighting continued over the weekend on the southern and south-western outskirts of Bihac town but beavy armour had not been used. They also reported a large explosion at the Bosnian army's Bihac headquarters, apparently triggered by tbe government forces before they withdrew northwards.

The vulnerability of the UN's 24,000-member force in Bosnia was underlined yesterday when it emerged that up to 400 peacekeepers were being detained in Serb-controlled territory.

UN officials said last night they were trying to ascertain the whereabouts of more than 100 Dutch and 62 British soldiers who appeared to bave been stopped at Serb cbeckpoints. About 250 peacekeepers were detained last week after Nato launched air strikes on Serb positions in Croatia and Bosnia.

Mr William Perry, the US defence secretary, yesterday conceded tbat tbe Serbs bad, in effect, won the war in Bosnia. In remarks which reflected European concerns and differed sbarply from Senator Dole, be said lifting the arms embargo could stoke the war, and expressed doubt over the feasibility nf a military solution. "The Serbs bave occupied 70 per cent of the country. There's no prospect tbat I see of the Moslems winning that back," he said.

Amid growing signs of disarray over Bosnian policy in the main Western capitals, Mr Andrei Kozyrev, Russia's foreign minister, said he had "successful and very useful" talks with Serbian President Slobodan Milosevic.

He said Mr Milosevic was working for a ceasefire in Bihac and throughout Bosnia.

Reports that Mr Kozyrev was also meeting Serh leaders from Croatia and Bosnia could not be confirmed. The secret meetings were beld at a remote villa in Kardjordjevo, north of Belgrade.

Mr Perry said he was not prepared to recommend the deployment of the bundreds of thousands of US troops necessary to reverse the tide of the war. He said he sent 2,000 US Marines to the Adriatic on Friday "for contingency purposes as a rescue team". "The possibility of pilots needing rescue is not remote."

Mr Perry argued that Nato had done whatever it had been asked to do, and blamed the UN for the absence of more vigorous action.

Late spurt by Yes side in Norway vote on EU

By Hugh Carnegy in Stockholm and Karen Fossli in Oslo

Final opinion polls sbowed the Yes campaign gaining ground as Nnrwegians began voting yesterday in a referendum on joining the European Union. A majority in favnur when votes are counted tonight would reverse Nnrway's rejection in 1972 of membersbip of tbe tben European Economic Community.

The No side has led the contest througbnnt the year, but a spurt by snppnrters of Norwegian membership since neighbouring Sweden voted to join twn weeks ago has enconraged Mrs Grn Harlem Brundtland, tbe prime minister, and her Labour government, to believe that victory Is possible.

In a final campaign pnsb on Friday and Saturday, Mrs Brundtland appealed to Norwegians not to leave tbe country isolated now Sweden and Finland, its fellow Nordic nations, *had* elected to join the EU. Calling the referendum the most important decisinn facing Norway since the Second World War, she said the Yes campaign was gaining momentum and called for a high turnout to ensure victory. "Get off the sofa and vote," sbe said. "We are almost there."

The last opinion polls of the campaign yesterday showed a continned lead nf abont 52 per cent to 48 per cent for the No side, which argues that member-

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UK premier is poised for victory in vote on EU cash

By Philip Stephens, Political Editor

Mr John Major, the UK prime minister, appeared certain last night of victory in today's parliamentary vote on the European Union budget as rightwing opponents on the Tory back benches in the House of Commons launched a last-minute drive to force a challenge to his leadership.

In spite of threats by a hard core of Eurosceptics to risk suspension from the parliamentary Conservative party by abstaining in tonight's vote on the EU finance bill, senior ministers said the government would secure a comfortable majority.

Mr Major bas warned tbat defeat would be followed by the government's resignation and a general election. Mr Major has a Commons majority of 14, but is assured of the votes of up to 10 unionist MPs from Nortbern Ireland tonight. The vote, however, will coincide with signs that the prime minister will seek to ease the tensions over Europe by conceding a referendum on any further significant moves towards integration.

Mr Norman Lamont, the former chancellor of the Exchequer, publicly disassociated himself from attempts by rightwing MPs to force a contest for the Tory leadership before the deadline for any such move on Wednesday.

Leading rightwing figures behind the attempt to raise the 34 signatures from Tory MPs necessary to allow a cballenge admitted that they were still about 10 sbort of that number.

They were tberefore seeking backing from dissidents on the left of the party. Leftwing MPs known to be unhappy with Mr Major's leadersbip were being told that a cballenge might pave the way for bis replacement witb Mr Michael Heseltine, the trade secretary, or Mr Kenneth Clarke, the cbancellor.

Mr Major's opponents voiced confidence tbat if they secured the signatures and could demonstrate cross-party support for a contest, then Mr Lamont would change his mind. The former chancellor appeared to leave himself room for manoeuvre when be said that be could not "envisage the circumstances" in which he would stand against the prime minister.

Earlier Mr Micbael Howard, the bome secretary, had warned Mr Lamont that be would "cut an absolutely ridiculous figure" if be attempted to topple Mr Major. Mr Jonathan Aitken, a junior Treasury minister, said any contest would be "deeply destructive".

Mr Lamoot's comments came as senior ministers indicated that Mr Major might promise a referendum on further transfers of

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Austria	Sch32	Greece	Dr350	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lw80.00	Iceland	IKr215	Neth	Fl 4.25	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira80	S. Africa	R12.00
Czech Rp	CZK50	Israel	Shk6.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Estonia	EKr 20	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00
Finland	FM14	Kuwait	Fils625	Poland	Zl 38,000	Tunisia	Din1.500
France	FFr9.50	Lebanon	US$1.50	Portugal (m'land)	Es225	Turkey	L30000
Germany	DM3.80	Lux	LFr65			UAE	Dh12.00

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EU to tackle blueprint for enlargement

By Lionel Barber in Brussels

The German presidency of the European Union will today seek agreement on a blueprint for bringing the former communist countries of central and eastern Europe into the EU around the turn of the century.

The document, running to more than 100 pages, will be discussed at a meeting of EU foreign ministers in Brussels. It lays out plans for the six aspirants from eastern Europe to bring their markets, trade regimes and laws, as well as foreign and judicial policies into line with the EU.

But the paper stops short of giving a date for EU membership, and skirts the crucial question of how the Union intends to reform the Common Agricultural Policy – one of the most daunting barriers to eastern enlargement.

Germany, which hands over the rotating presidency of the EU to France on January 1, views the document as the centrepiece of next month's European Union summit in Essen and the strategy to build a "wider Europe". But the summit outlook has been clouded by the apparent German decision not to invite the six central and east European leaders *to Essen, and stalling among* the Twelve over a more generous market access package.

France, Spain and Portugal were said last week to be dragging their feet over plans progressively to reduce the use of anti-dumping and safeguard clauses as the six associate EU members – Poland, the Czech Republic, Hungary, Slovakia, Bulgaria, and Romania – adopt EU laws.

Second, the European Commission has failed to live up to promises to produce a study on whether accumulation of EU rules of origin would stimulate trade with the central Europeans, according to a senior EU diplomat. Many axperts believe that relaxing the EU's rules of origin would significantly expand trade.

EU diplomats are confident, however, that Bulgaria and Romania will win the same accalarated markat access package agreed with the Poles, Czechs, Hungarians and Slovaks.

This would mean free access for industrial prodncts from January 1 1995, with steel and textiles following in 1996 and 1997 respectively.

The Czech Republic and Slovakia are also set to win an increase of 250,000 tonnes in their quotas for steel exports, following the collapse of the Commission's rescue plan for the steel industry. Some modified concession on farm exports will also be on tha Essen agenda.

German Chancellor Helmut Kohl's failure to invite central and eastern European leaders to Easen is viewed in soma quarters as an unnecessary snuh; but German officials stressed that it was more important to reach a consensus on how to proceed with *enlargament, "binding in"* France and the Mediterranean countries sensitive to the EU'a balance of power tilting to the north and east.

The leaders could expect an invitation to the Cannes summit in June under the French presidency.

Separately, ministers are expected to approve a mandate for Brussels to negotiate EU association agreements with the three Baltic republics of Latvia, Lithuania and Estonia.

Oslo fears being Europe's odd man out

By Hugh Carnegy and Karen Fossli

Campaigners for Norwegian membership of the European Union in today's referendnm have hammered home the view that to vote against joining would be to cast Norway into a political and economic limbo on the remote fringes of the continent.

Mrs Gro Harlem Brundtland, the veteran prime minister, said on Saturday at a final rally held in an attempt to overturn the conntry's deep-seated reluctance to embrace the EU: "If you follow the advice of the No troops, it *can be costly for your* country, for you and for your children. If you feel the fear [of the EU], if yon listen to the pessimism. . . yon will place your country in a difficult sitnation – isolated and alone."

The No side has responded witb a forceful rehuttal. It says Norway, with its oil and gas, its fish and its plentiful hydro-power, *has* the *fundamental* economic strength to prosper independently - especially as it already has the trade benefits of participating io the Enropean Economic Area agreement with the EU. *As a founder* member of Nato, the country's security is underpinned.

But Mrs Brundtland and ber government say these arguments amount to dangerous complacency abont Norway's place in a changing world.

One of their greatest concerns lies in security. Norway occupies a strategic position, sharing a frontier with Russia in the far north (Nato's only direct frontier with Russia apart from that in Turkey) and guarding the north Atlantic and Barents Sea approaches to the northern Russian ports *and hinterland where moch of* the post-Soviet nnclear arsenal is sited.

Already, Nato has lowered its profile in Norway, shifting its northern flank headquarters from Oslo to England. US forces have begun to run down some of their pre-positioned stores of military equipment held in Norway. The government, atill deeply concerned by instability in Rnssia, is afraid that Nato's commitment to northern Norway will be weakened if Norway votes to stay ont of the EU.

This is because of the shift within Nato towards building a European pillar based on the Western European Union, set to become the focus of the EU's strategic and defence policies. Oslo, which at present only has observer status in the *WEU, is anxious to* play a full part. The case about strategic isolation has been strengthened since Sweden and Finland, Norway's Nordic neighbours, voted to join the EU. The inevitable thrust of their policy is now to participate in west European strategic developments.

The argument abont economic isolation is, perhaps, less persuasive becanse of Norway'a rich natural resources and the widespread fear of an erosion of Oslo's ability to control them independently once inside the EU. But the government - and the vast majority of business and industry - warns that with Austria, Finland and Sweden joining the EU, the future of the EEA trade accord is uncertain, given that it would apply after a Norwegian Nn only to Norway, Iceland and Lichtenstein.

Mnre convincingly, Mrs Brundtland says that electing to stay outside the EU would risk provoking a negative investment flow at a time when petroleum revenues are about to peak and Norway badly needs to build up its weak onshore industrial base. This worry is not just about the inflow of foreign investment to Norway; it also concerns the flow of investments by Norwegian companies.

The Yes campaign says Norwegian companies have over the past 10 years made investments overseas which produced 60,000 wnrkplaces - while 5,000 industrial jobs were lost at home. It says this trend will be reinforced and may even be accelerated by a shift by companies across the border into Sweden. The heads of Norsk Hydro, Kvaerner, the engineering group, and the pharmaceutical company Hafslund Nycomed, the country's three largest listed companies, and the state-owned Statoil have all said their investment strategies would be influenced against Norway by a No vote.

Another potent isolation argument concerns the long border with Sweden, which at present is virtually open. Transformation of the Swedish border into an external EU border could result in far stricter controls.

German finance minister Theo Waigel, 55, married former Olympic skier Irene Epple, 35, at the weekend in the southern resort town of Seeg. The ceremony was attended by Chancellor Kohl (left) and his wife Hannelore (right). Second from left is the bride's sister, Ms Maria Epple Reuter

Russia, US square off over security

John Lloyd and **Bruce Clark** report on differing views about expanding the role of the CSCE

As Mr Andrei Kozyrev, Russia's foreign minister, discussed the Bosnian crisis with Serb leaders in Belgrade yesterday, his country was preparing a much broader initiative aimed at putting Moscow's stamp on the new security order in Europe.

Russia wants a sharp upgrading of the prestige, budget and powers of the 53-nation Conference on Security and Co-operation in Europe, which groups the US, Canada, virtually all the countries of Europe and the former Soviet republics. *It* will press this idea *hard* at next week's CSCE summit in Budapest. The US – whose views on European security will be set out in a speech today by Mr Warren Christopher, secretary of state – also wants the status of the CSCE raised. But that is where the resemhlance between US and Russian thinking ends.

For Russia, an upgraded CSCE could give Moscow a degree of influence over security in western Europe, while confirming Moscow's role as the main player in the security of the Commonwealth of Independent States.

For the US and some European countries – including the ex-communist nations such as Hungary – boosting the CSCE would work as a sop to Moscow, helping to calm its objections to the expansion eastwards of Nato.

Yet the latest pronouncements from Russia suggest thet Moscow is not ready for such a trade-off: it wants both to upgrade the CSCE, and to head off the expansion of Nato.

Russia's prickly mood was underlined when President Boris Yeltsin went to the border town of Pskov, his most important public engagement this month. Faced with claims for the return of 2,000 sq km of land which belonged to pre-war Estonia, he vowed not to give up a centimetre of Russian soil. Mr Yeltsin'a pledge won fulsome praise from the ultra-nationalist Liberal Democratic party led hy Mr Vladimir Zhirinovsky.

Estonia, like virtually all the ex-communist states of central Europe, wants to be integrated into the European Union and ideally Nato. But Moscow is anything but reconciled to the idea of Nato expanding.

Opinion among Russians, inside and outside officialdom, is firm: "It'a at least 99.99 per cent against Nato enlargement," says Mr Sergei Karaganov, a presidential foreign affairs adviser. "Everyone believes it would push Russia into a corner and increase tension, not bring security."

> Opinion among Russians, inside and outside officialdom, is firm: it's at least 99.99 per cent against Nato enlargement

As for the upgrading of the CSCE, Russia's continuing commitment to this was underlined last week hy Mr Vladimir Lukin, chairman of the foreign affairs committee of the Duma, parliament's lower house.

He spoke of the need for the CSCE to "obtain a mandate for the decision of all questions of security in Europe" and reaffirmed Russia'a support for a CSCE Security Council along the lines of the UN.

Russian hopes of playing a central role in a new European security structure – with or without the CSCE – have been boosted by signs of disagreement between western Europe and the US over Bosnia.

According to the daily Sevodnya, Mr Kozyrev was encouraged by his recent trip to France and has begun to talk privately of an "historic Franco-Russian alliance" as a pillar of a new order in Europe. He has also suggested that both Nato and the CSCE may be superseded. "Can't we give an innovative reply to the entirely new European situation which is emerging today in the mid-1990s?" the paper quoted him as asking.

Western diplomats in Moscow acknowledge that Russia's opposition to Nato enlargement is, for now, both firm and heartfelt. But they hope that this could change if the issue is handled with care, *and if Moscow is drawn further* into the Partnership for Peace, a programma for military co-operation.

On the face of things, US enthusiasm for early moves towards the expansion of Nato should set alarm bells ringing in Moscow. In today's speech Mr Christopher is expected to state firmly that Nato must "begin the process" of expansion in the coming months.

Mr Richard Holbrooke, the *assistant secretary of state for Europe*, recently confirmed the US policy of boosting the CSCE on one hand while keeping Nato strong, and preparing to expand it, on the other.

Diplomats see only one way in which Washington's stated enthusiasm for enlargement and Russia's opposition could be finessed. Moscow has said it would not object to the enlargement of Nato as long as Russia itself is viewed as a candidate – bowever hypothetical – for membership.

While Mr Volker Ruhe, German defence minister, has said Russia can never join Nato, US officials avoid being so categorical. They speak of "procedures" and "criteria" by which members could be admitted to Nato, without naming countries. Cynics will no doubt say that that these word-games are a way to "keep the Russians happy, and the East Europeans hoping": that is what they said when PFP was launched a year ago.

CDU women resist fixed job quotas

By Michael Lindemann in Bonn

Chancellor Helmut Kohl's Christian Democratic Union (CDU) will today try to agree on quotas designed to give women a higher profile within the party despite evidence that many of them want nothing of the sort.

Several have spoken out ahead of the *one-day national* congress saying quotas – which would reserve one third of the party's positions for women – are not helpful. "It's a democratic crutch," said Ms Rita Süssmuth, speaker of the Bundestag, or lower house of parliament.

The quota is the only blg issue at the congress, whicb meets in Bonn for the first time since the mid-October election victory, and will also re-elect its 13-strong council and the 26-strong national executive.

However, much of the talk on the sidelines is expected to focus on who will succeed Mr Kohl, who said *just before* the October elections that he would not stand again in 1998.

Mr Wolfgang Schäuble, the wheelchair-bound leader of the parliamentary party, has long heen regarded as Mr Kohl's designated successor, and the 1,000 or so delegates will be paying particular attention to what he says. However a handful of younger politicians – including Mr Jürgen Rüttgers, the new research and technology minister – have been mentioned in recent weeks as possible alternatives.

The quota is likely to be approved, given that Mr Kohl has thrown his weight behind the idea in the hope that it will improve his standing among women voters.

For many other CDU members it is also seen as a last-ditch solution to a problem which has heen often talked about but never solved: the CDU has just 13.9 per cent women in its ranks, less than the 36.3 per cent average for parliament as a whole.

However, opponents of the quota *said it would be better to* adopt the model used by the CDU in tbe southern state of Baden-Württemberg, where a fixed percentage of women are nominated but the election itself is left open.

Turks express despair over entry card to the Fatherland

By Judy Dempsey in Bonn

Becoming a German citizen is easier said than done. Not only does Germany have no immigration laws, but its nationality laws, which date back to 1913, are based on blood.

Nationality is automatically granted – provided one of the parents is German. Otherwise, if you have no German relations, and no German spouse, there is a wait of at least 10 years before applying for citizenship. Even then, there is no guarantee it will be granted.

"At first, when I started to address the crowd, they could not believe I could speak German. Then they were surprised that I did not have a Turkish accent. And they were even astonisbed that I was going to stand for parliament," says Mr Cem Ozdemir.

Born in 1965 in the town of Bad Urach in tbe state of Baden-Württemburg, Mr Ozdemir last mooth was elected to the Bundestag, the first time anyone from an immigrant family had attained such a status. His election coincided witb a spate of recent attacks on foreigners, particularly in Berlin, and a renewed debate among Germany's political parties about whether to liberalise the country's strict nationality laws in an effort to integrate foreigners. "It was a long road to the Bundestag," says Mr Ozdemir, a member of the Greens/Bündnis 90 party. "But I hope I can have some influence in trying to make it easier for the German government to integrate the millions of foreigners who are living in this country."

More than 6.8m foreigners live in Germany. For economic reasons, many were invited as *Gastarbeiter* (guest workers) in the 1960s. But those who chose to remain soon discovered that despite paying taxes, and meeting all their social commitments, they were not entitled to vote unless they hecame German citizens. The matter is further complicated by the fact that in the case of the 1.9m Turks living in Germany, the immigrants are reluctant to give up their Turkish citizenship.

The reason is that they become foreigners in the country of their birth, or their parents', and lose the right to inherit property. And aince Germany does not allow dual citizenship, many Turks are reluctant to take up German citizenship.

Mr Ozdemir soon discovered – when he applied for German citizenship when he was 18 years old – that Turkey was reluctant to relinquish ties. s "Ankara wants the sons of those Turks living in Germany for military conscription," said Mr Ozdemir. Mr Ozdemir claimed thet the vast majority of Turks born in Germany paid a DM10,000 (£4,000) fine rather *than serve in the army*.

Mrs Cornelia Schmalz-Jacobsen, head of the federal office for foreigners' issues, wants children of foreigners born in Germany to be granted dual citizenship until the age of 18, when they can then choose *their nationality*.

"We have to create the instruments for integrating these children," she said. "The present situation plays into the hands of the far-right extremists."

Mrs Schmalz-Jacobsen added that the recent proposals by Chancellor Helmut Kohl's coalition government for amending the citizenship regulations verge on the absurd. For instance, if they become law, a child can have German nationality until the age of 18 provided one of the parents has been born and ha lived in the country for 10 years and the other parent has lived in Germany for a decade. "These proposals will be impossihle to administer," said Mrs Schmalz-Jacobsen.

"Can you imagine tha bureaucracy involved and the interpretation of the law. People will ask had they in fact lived in Germany for 10 years if they had spent the summer with their grandmother in Turkey. It's a nightmare."

Mr Ozdemir agrees. "But the laws will have to change sooner or later which will make it easier to integrate," he said. "The 1913 law is an anachronism. It will take time. But what I fear is that the politicians are reluctant to even ask when is the right time to change".

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NEWS: EUROPE

UK, France block Ukraine reform aid

By Lionel Barber in Brussels and Chrystia Freeland in London

The UK end France are blocking a joint US-German effort to mount an international financial aid package to encourage economic reform in Ukraine.

The stand-off is creating further tensions in the transatlantic alliance in conjunction with US criticism of the European Union's efforts to stabilise eastern Europe and former Yugoslavia. Last week, President Leonid Kuchma was given red-carpet treatment in Washington following Ukraine's accession to the Nuclear Non-Proliferation Treaty.

The Clinton administration is particularly upset by British resistanca to supporting e $600m (£365.8m) balance of payments loan to Ukraine. "Wa believe that President Kuchma needs a strong vote of confidence from the west, and wa are very disappointed with the EU's lack of response," said a US official.

Ukraine is expected to be discussed informally at today's meeting of EU foreign ministers in Brussels, but tha decisive meeting will take place among European finance ministers a week later, just before the European Council summit in Essen on December 9 and 10.

At stake is whether the EU will provide Ecu85m (£66.9m) out of the planned $600m to help to bridge a total $1bn gap in Ukraine's halance of payments in the fourth quarter of 1994, according to the International Monetary Fund. The money is needed to finance energy imports to keep houses heated, to provide energy for industry, and reduce dependence on nuclear energy.

The US has already agreed to "front-load" the package with $70m in grants which would rise to $100m if the EU comes on board. Canada is putting up $20m and the Dutch are offering $5m. Without the EU contributlon, Japan and Russia will hold back, risking a reignition of inflation and social npheaval, eccording to an internal IMF assessment.

Britain – backed by France, Italy and Belgium – argues that the EU cannot take part in halance of payments lending without the security of an IMF-stand-by loan which contains strict conditions tiad to a reform programme.

Ths US and Germany argue that conditions already exist following the disbursemeot of a $371m "systemic transformation facility" – e new financial instrument created to help former communist countries take the first steps to economic reform.

Mr Kenneth Clarke, the UK Chancellor of the Exchequer, is taking a particularly hard line. "The EU is not an international financial institution," one UK official explained. "That's the job of the World Bank and the IMF."

France is equally unsure about putting forward an EU loan before an IMF programme is in place. It has argued that Ukraine's main energy suppliers and creditors – Russia and Turkmenistan – provide the bulk of the cash. Italy is pressing for early repayment of outstanding debts.

But the US, Germany and the IMF are pushing for an activist policy to help Ukraine whose strategic importance lies in its position next to Russia, its nuclear status, and its faltering nuclear energy industry.

Officials point out that, in fact, the EU is only baing asked to provide Ecu20m net because Ukraine is supposed to repay Ecu65m before the end of the year. Ukraine's total foreign deht is around $7bn.

Volkswagen to produce new Beetle

Volkswagen, the German carmaker, has decided to press ahead with the development of a modern-day Beetle with the aim of starting production towards the end of the decade, writes Kevin Done, Motor Industry Correspondent. VW first showed e "back to the future" concept study for a new generation Beetle, "Concept 1" (pictured above), at the Detroit motor show last January to gauge market reaction, particularly in the US. The existing Beetle, the world's best-selling car with output totalling more than 21m, is still assembled in Brazil and Mexico.

The Concept 1 was designed by Volkswagen's Californian design studio. The body shape of the new car will he derived from the familiar rounded design of the old Beetle, but mechanically it would be a modern car. It would have a front-mounted engine instead of the classic rear-mounted, air-cooled engine of the old Beetle, and would have modern safety features such as airbags and anti-lock brakes. The Beetle, the "people's car" which Volkswagen was founded to huild, was designed by the German engineer Mr Ferdinand Porsche in 1934, shortly after Hitler came to power. Volkswagen says the most likely production location for the new Beetle was its plant at Puebla, Mexico.

Chechen coup attempt fails

By John Thornhill in Moscow

President Dzhokhar Dudayev, the president of Chechnya, survived a determined attempt to overthrow him at the weekend, as another hurst of fierce fighting erupted in tha Caucasian republic.

United opposition forces launched an assault on Friday evening on Grozny, the capital, and at one stage even claimed to have seized the presidential palace. But Mr Dudayav's forces appeared successfully to have repulsed the attack and claimed they had knocked out 20 opposition tanks. There were no clear reports of the number of casualties. "The Chechen nation has again shown it will defend its honour, freedom and independence," Mr Dudayev said.

Mr Dudayev, e former Soviet air force general, has resisted several attempts by Moscow-backed rebels to depose him since the Moslem republic of 1m people declared its independence from Russia three years ago. Yesterday, he accused Moscow of direct involvement in the latest coup attempt and warned that continued hostilities threatened to spread the war heyond the north Caucasus and "throughout Russia".

Chechen security officials yesterday claimed to have captured 50 Russian fighters and paraded two of them before the press. One of them, Mr Andrei Chasov, a 21-year-old serving soldier from Moscow, said he had been sent to Chechnya without being given a reason.

"They said we were going on a trip... They showed me e tank. We were nervous. They told us we had to get in. We got to the edge of Grozny, then our commander abandoned us," he said, according to e Reuters report.

But Russian officials vehemently denied direct participation in Chechnya. General Vladimir Potapov, chief of staff of the North-Caucasian military district, told the interfax news agency on Saturday that reports suggesting Russian regular servicemen had been been taken prisoner in Grozny were "malicious slander". However, he did not rule out the possibilty that former Russian servicemen could have been hired as mercenaries.

Chechen opposition forces, which united in August to create a provisional council to depose President Dudayev, said yesterday they would seek more assistance from the Russian government.

Brussels boost for mechanical engineering

By Andrew Baxter

The European Commission is proposing e series of measures to improve the competitiveness of the European Union's Ecu210bn ($250bn) mechanical engineering industry, one of the sectors worst hit by tha recent recession.

The move reflects concern in the Commission about e potential loss of global competitiveness in the industry, which accounts for 8 per cent of total EU industrial output.

This would have serious consequences for all manufacturing in the EU, because of machinery makers' central role in supplying production equipment, the commission warns.

A commission communication, Strengthening the Competitiveness of tha European Machinery Construction Industry, was presented to EU industry ministers at their last meeting on November 8.

It is the result of more than two years of talks with industry leaders, who have been keen to raise the awareness in Brussels of the strategically important but highly fragmented mechanical engineering sector.

The communication discloses that production in the EU mechanical engineering industry fell from Ecu225bn in 1991 to Ecu210bn last year, apparent consumption from Ecu190bn to Ecu170bn, and employment from 2.7m to 2.3m.

The commission says the industry bas to meet challenges on e number of fronts: it needs to reduce its sensitivity to recession, accelerate its restructuring, learn how to exploit innovation fully and step up efforts to become a true global force.

Its proposals are designed to provide guidelines for action over the next few years hy the EU, member states and the industry itself.

The most important cover investment promotion, where member states will be encouraged to improve tax depreciation rules for capital goods; industrial co-operation especially among small and medium-sized machine manufacturers; and fiscal incentives for research and development.

The proposals were walcomed last week hy Orgalime, the Brussels-based liaison group for the European mechanical, electrical, electronic and metal working industries.

OBITUARY

Schulmann: Bonn's EMS planner

Mr Horst Schulmann, a director of the Bundesbank and president of the regional central bank of the state of Hesse, who died last week aged 61 after a long illness, was one of the most internationally experienced peopla on the German banking and financial scene.

Ha was closely involved in the creation of the European Monetary System.

As a senior economic adviser to the German governmant when Mr Helmut Schmidt was chancellor, he played an important role in smoothing the way for the start of the EMS in 1978.

Mr Schulmann also helped prepare the ground for western economic summit conferences between 1978 and 1982. Before his time with Mr Schmidt's Social Democratic government, he had spent four years as a senior executive at the World Bank in the early 1970s, after which he worked as a senior economic official for the European Community.

Strike today will ground airline

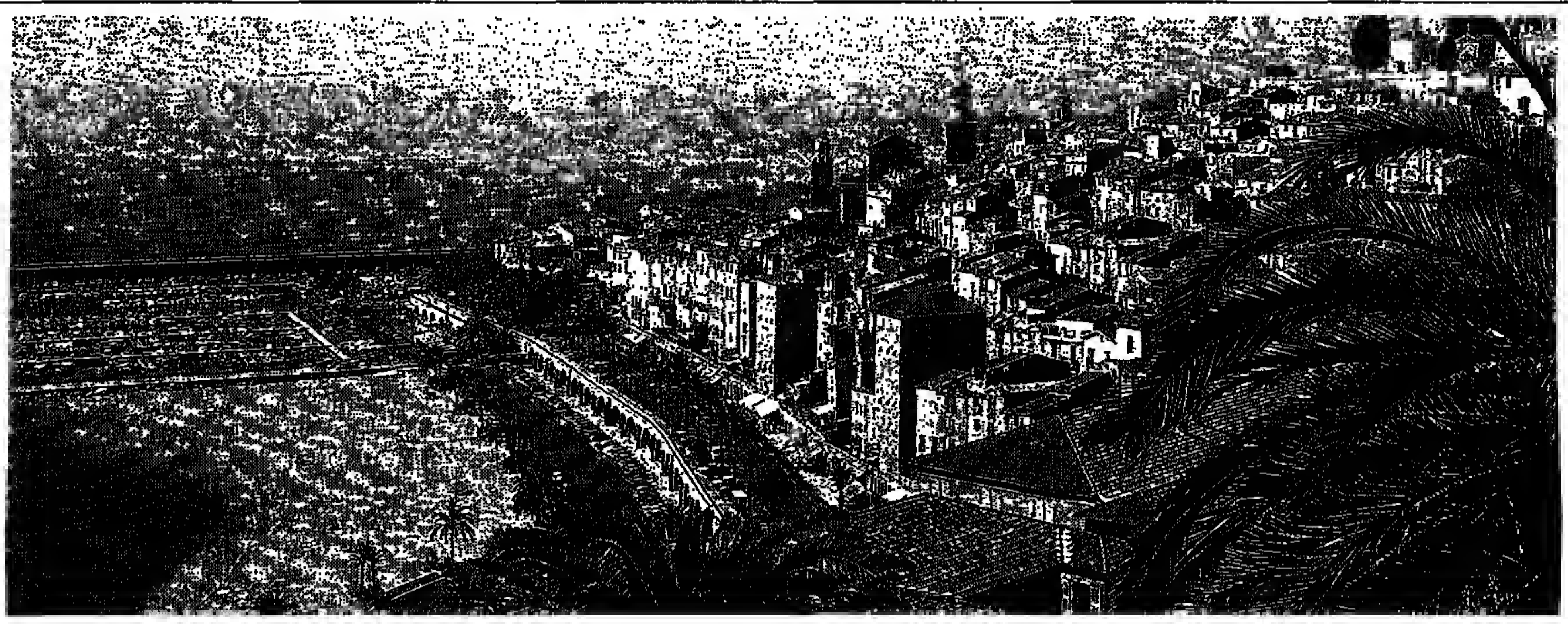
By Tom Burns in Madrid

Iberia, Spain's financially crippled airline, will he grounded today as unions stage a 24-strike to protest at a drastic restructuring plan that involves 5,000 redundancies, 20 per cent of the company's labour force, and the break-up of the carrier in order to raise fresh capital through disposals.

The stoppage is likely to cause chaos at domestic airports and severely disrupt all air traffic to Spain.

Unions rejected calls over the weekend to return to the negotiating table and to reconsider an earlier viability plan in which the management proposed to cut salaries by an average 15 per cent and to shed 2,000 jobs over the next two years.

The management said the only alternative to its viability plan was to scale down the airline to a fraction of its present size in order to avert its impending bankruptcy.



Balanced budget proposed in Saudi five-year plan

By Mark Nicholson in Cairo

Saudi Arabia is committing itself in principle to balancing its budget by the end of the decade, under a new five-year plan in which the government says it will seek to privatise some state industries, "rationalise" costly state subsidies and invite greater private sector investment in infrastructure and other projects.

The principles are contained in an abstract of the kingdom's sixth five-year plan, which will come into effect after approval by King Fahd, the Saudi ruler, on January 1.

The abstract contains only declarations of principles guiding Saudi policy for the next five years. Details will be included with the plan's full publication next year. However, it addresses some of the core reasons behind the kingdom's consistently high budget deficits over the past decade and hints that the government may be ready to make significant structural changes to its finances.

Saudi officiala recently suggested that the kingdom's next budget, also due on January 1, might contain specific measures to raise state revenues. Last year'a budget called for a flat 19 per cent cut from all government departments following the kingdom's 11th successive budget deficit in 1993.

The fiscal gap in 1993 was reckoned by weatern economists to be $12bn (£7.3bn), or 10 per cent of GDP, though no official figure is published. A shortfall of around $6bn is expected for 1994, even after successful government spending cuts.

However, the document, called General Objectives and Strategic Bases of the Sixth Development Plan, says the government will "adopt a fiscal policy which allows the level of expenditure to commensurate with governmeot revenues" during the plan's five-year period.

This will be achieved, it says, by finding "optimum ways to increase government revenues" without causing "undesirable social and economic effects". This is to include increasing governmeot efficiency, enhancing private sector investment, particularly in infrastructure projects, and "developing privatisation programmes".

King Fahd has already raised the possibility in two recent speeches of eventually privatising Saudia, the highly-subsidised state carrier, and parts of the kingdom's telecommunications system. The new document states a general principle of encouraging the private sector to own and manage "basic industries" through the "timely flotation of the shares of these industries".

On subsidies, which at present heavily reduce the prices of power, telecommunications and water services, the document says the government will "rationalise the system of direct and indirect subsidies". It says the prices of such services "should not be less than their production cost, except in rare cases". While saying that the costs of providing public utilities should be reduced, the document holds out the prospect of price rises, adding that these would be implemented "without jeopardising the status of low income strata of society".

The document also places a priority on increasing vocational training and job opportunities for Saudis in the private sector.

It says the government will seek to "change attitudes towards certain occupations which at present are not accepted by some individuals" – a reference to most Saudis' preference for secure and well-paid public sector jobs over private sector employment.

It also says the government would "find suitable means to encourage the private sector to provide job opportunities" for Saudis, hinting that it may for the first time introduce specific incentives for companies to hire Saudi citizens rather than expatriate workers.

More than 4.5m expatriates now work in the kingdom, most of them in private sector manual, technical or industrial jobs.

Remittancea from these workers, mostly from the subcontinent and east Asia, amount to $16bn-$18bn a year, according to local economists.

Gunmen kill West Bank rabbi

By Eric Silver in Jerusalem

Islamic gunmen yesterday killed a rabbi and wounded an Israeli policeman near Hebron on the occupied West Bank. Hamas, the main opponent of the peace deal between Israel and the Palestine Liberation Organisation, claimed responsibility in a statement issued in the Gaza Strip.

The 35-year-old rabbi, Ami Ulami, was driving north towards the settlement of Otniel, when gunmen raked his car with automatic fire. The car overturned, but it was not immediately clear whether he died from the shooting or the crash. The policeman, a passenger in the vehicle, suffered gunshot wounds and was recovering in a Jerusalem hospital last night.

Settler leaders claimed authorities had done nothing to bolster security in the area since two Israelis were killed in a guerrilla attack earlier this year about 1km from the site of yesterday's incident.

Mr Roni Shechner, head of the local settlements council, said: "There are dangerous killers in this area, but the army is thinning its forces, instead of reinforcing them."

Earlier yesterday the Chief of Staff, Lt-Gen Ehud Barak, warned the cabinet that Israel could expect an increase in Palestinian attacks. The prime minister, Mr Yitzhak Rabin, is standing by his policy of "fighting terror as if there were no peaca negotiations, while negotiating as if there were no terror".

The attacks are, however, forcing him to move slowly and cautiously. Six months after Israeli troops pulled out of most of Gaza and Jericho, he has still to set a date for evacuating the rest of the West Bank, or for granting the Palestinians safe passage by road between Gaza and Jericho.

Mr Yassir Arafat, the PLO chairman who is considering the possibility of setting up a consultative council in the absence of elections, is challenging Hamas to accept e share of the responsibility that goes with influencing Palestinian autonomy.

Jordan and Israel set up diplomatic relations

Jordan and Israel yesterday announced the establishment of diplomatic ties in line with last month's peace treaty leading to full normal relations after a 46-year state of belligerency, Reuter reports from Amman. A joint communiqué issued in Amman and Jerusalem paved the way for exchanging ambassadors and opening embassies in Amman and Tel Aviv by December 10, as set out in the treaty. A party of schoolchildren will go to Israel tomorrow to attend celebrations in Haifa, becoming the first group of Jordanians to enter Israel formally since November 14, when both countries opened the way for visits.

Hundreds of Israeli tourists have flocked to Jordan in the past two weeks.

The statement added that both countries hoped the move would promote comprehensive peace, development and co-operation. They will now formally exchange letters nominating ambassadors. King Hussein personally chose Mr Marwan Muasher, 38, Jordan's former Middle East peace team spokesman and a US-educated computer entrepreneur, as Jordan's first envoy to Israel.

The cabinet appointed Mr Muasher ambassador at the foreign ministry on Saturday and is expected to send his papers to Israel soon.Israel has yet to name an envoy to Jordan.

A Sunni Moslem activist shouts slogans against the Shia Moslem minority in a rally in Karachi, Pakistan, yesterday. The rally was called in protest et the killing of two Sunnis in a bomb attack on a Lahore mosque on Saturday, which has been blamed on militant Shias. Reuter

Parties close in Uruguayan poll

By David Pilling in Montevideo

Uruguayans yesterday voted in what promised to be the country's closest presidential election for decades as latest opinion polls indicated a virtual three-way tie between the main contenders.

Polls conducted before campaigning stopped last week put the governing Blanco party and the opposition Colorado party on 29 per cent each, with the left-wing Encuentro Progresista coalition just behind on 27 per cent. Few pollsters were hazarding a guess on the likely outcome, saying the result could be changed by a swing of only 15,000 votes.

Whoever becomes president will almost certainly lack a majority in Congress – whose members were also being elected yesterday – and will have to forge a coalition in order to govern for the next five years.

The two presidential frontrunners were expected to be Mr Julio Maria Sanguinetti, a former president and candidate for the social democratic-leaning Colorado party, and Mr Alberto Volonté, a maverick Blanco candidate campaigning on a "non-politician" platform.

Close behind in the polls is Mr Tabaré Vázquez, the charismatic mayor of Montevideo who leads a coalition ranging from social democrats to socialists, communists and former guerrillas. Mr Juan Andrés Ramírez, Blanco's second presidential candidate, is the chosen successor of President Luis Alberto Lacalle, but has consistently trailed Mr Volonté in the polls.

Results of the elections, not expected to be officially announced until today, will determine whether Uruguay pushes ahead with the free-market reforms cautiously introduced by Preaident Lacalle. Both Blanco candidates would try to revive the privatisation process and to reform the costly social security system.

Mr Sanguinetti, who has complained that overzealous liberalisation has harmed Uruguayan industry, would probably adopt less overtly free-market policies. Mr Vázquez, who enjoys fanatical support in Montevideo bnt whose party machinery may be insufficiently well oiled to deliver him national victory, has sharply criticised the Blanco reform process.

Uruguayans also voted yesterday on constitutional reforms, one of which would make it harder to reform the pension system, while the other would guarantee that 27 per cent of public spending went on education. Blanco candidates say the reforms, both of which stand a reasonable chance of passing, would seriously weaken already stretched public finances.

Voting is obligatory for Uruguay's registered electorate of 2.3m.

Mexican party turns on accuser

By Damian Fraser in Mexico City

Mexico'a rnling Institntional Revolutionary party has launched a fierce counter-attack against Mr Mario Ruiz Massieu, the former deputy attorney general who last week resigned after claiming senior party figures had blocked the investigation into the assassination of his brother, Mr José Francisco Ruiz Massieu. The party formally accused him of defamation and calumny.

Mr Ignacio Pichardo, the party president, brought a defamation suit against Mr Ruiz Massieu, saying the latter had offered no evidence for his allegations. Mr Pichardo, and Ms Maria de los Angeles Moreno, the number two party official, accused Mr Ruiz Massieu of using his brother'a assassination to settle personal scores and damage the PRI.

Mr José Francisco Ruiz Massieu, the former secretary general of the PRI, was gunned down outside a Mexico City hotel on September 28. His brother Mario was until last week responsible for the investigation, and has accused some 10 people of being involved in the crime, including a former PRI deputy. However, the deputy is missing, and the investigation has stalled in recent weeks.

Mr Ruiz Massieu says he has put evidence allegedly incriminating Mr Pichardo, Ms Moreno and Mr Humberto Benitez Trevino, attorney general, in a sealed box to be opened on December 1, and says Mr Zedillo will have to decide what to do with the evidence.

Mr Zedillo has hardly commented on the fierce battle between Mr Ruiz Massieu and leaders of the PRI. But Mr Pichardo and Mr Trevino both come from a powerful political grouping that has been an important ally of Mr Zedillo.

Mr Ruiz Massieu has given emotional interviews implicitly criticising outgoing President Carlos Salinas, referring to the PRI as the "party of parrots", attacking Mr Zedillo for not returning his telephone calls, and saying he was considering joining the opposition.

INTERNATIONAL PRESS REVIEW

Zedillo in the margins

MEXICO

By Ted Bardacke

At first glance, it was hard to tell from the Mexican press that the country is to install a new president in a few days. Articles abont Mr Ernesto Zedillo's inauguretion on December 1 were swamped by extensive coverage of Mexico's latest political scandal. This involves accusations – fiercely denied – that senior officials and members of the ruling Institutional Revolutionary party conspired to block the investigation of the September assassination of Mr Francisco Ruiz Massieu, the PRI's own secretary general.

However, Mr Zedillo was a constant figure in the margins of the scandal coverage, with the press noting that problems within the ruling party were affecting his delicate task of forming a cabinet and promoting political reform.

The crisis was unleashed by Mr Ruiz's younger brother Mario, who last week levelled his accusations and resigned as deputy attorney general, chief investigator into his brother's murder, and PRI militant.

Papers accustomed to touting PRI orthodoxy took to attacking Mario for disrupting an already complicated transition. The financially troubled *Excelsior* alleged that the "aggrieved brother" had been put up to the whole affair by another renegade PRI member and media star, Mr Manuel Camacho, and that the scandal "was a prelude to the formation of an opposition political party" led by Mr Camacho and Mr Ruiz. Paid advertisements in several other papers made the same claims.

El Financiero, the country's main business daily, took a different approach, theorising that outgoing President Carlos Salinas had orchestrated the entire Ruiz-PRI conflict to lay the groundwork for Mr Zedillo to "take charge" by exorcising the hardline "dinosaurs" from the ruling party.

One columnist even said the conflict bed opened the wey for Mr Zedillo "also to resign from the PRI, to show he is serious about reform".

Reforma, known for its independence and sensationalism, flatly declared that the accused PRI hierarchy had been so politically damaged by the back-biting that they were going to be left out of the Zedillo administration.

One cartoonist at the leftist *La Jornada* took a more cynical view, drawing a picture of the PRI hierarchy completely soaked in mud, but saying: "We just have to clean ourselves up a little bit for the cabinet photo."

The pink financial paper, *El Economista*, seemed not to care about the who, what or why of the affair, saying only: "The political crisis slows the flow of foreign capital."

Over the weekend, the only public statement from the president-elect himself was his offer to respect the freedom of the press. Reporters who camped outside his office in hopes of eliciting a comment ebout the Ruiz-PRI conflict were snubbed, possibly in retaliation for all but ignoring Mr Zedillo's trip to Washington last week to see President Bill Clinton.

Instead, they were told Mr Zedillo was trying to fine-tune his inauguration speech.

Judging by other hot stories filling the papers, the new president will have a lot of issues to talk about in his Thursday address. Conflict is beginning to simmer again in the southern state of Chiapas, scene of an armed rebellion this year, according to the government-owned news agency *Notimex*.

In addition thousands of opposition protesters from the southeastern state of Tabasco will soon arrive in Mexico City to denounce alleged electoral fraud in a recent gubernatorial election, noted La Jornada and El Financiero.

And many papers reported, based on official sources, that the confessed killer of the PRI's first presidential candidate Mr Luis Donaldo Colosio had been secretly interrogated and posaibly tortured just hours after the assassination and raised the idea that the murder was the work of drug traffickers.

With all these problems, veteran columnist Rene Delgado noted that Mr Salinas was the fifth president in a row to leave office amid political crisis. "Zedillo's challenge is enormous. In a few days he will have to face it," wrote Mr Delgado in Reforma. "We hope this time the story will be different."

Lessons to learn in keeping the peace

Over the next three months UN peacekeeping operations will be drawing to a close in *Mozambique and Somalia* – the former a qualified success, the latter an unmitigated disaster.

In Mozambique, 7,000 UN troops have overseen the implementation of a peace accord which ended a 17-year civil war, demobilised 75,000 combatants, and helped Mozambican National Resistance (Renamo) guerrillas organise themselves into a political party and contest peaceful elections.

In Somalia, a much larger and costlier UN mission has been unable to restore peace to a nation shattered by clan warfare. The UN pullout from its fortified bunker in Mogadishu will be a dangerous and undignified affair. Attempts to make rival warlords talk peace have failed, and the UN has long since dropped the pretence of trying to control the armed factions battling for supremacy in the capital and its hinterland.

Leslie Crawford on the successful UN operation in Mozambique

But Mr Aldo Ajello, the tough Italian diplomat in charge of the UN's operation in Mozambique, does not believe in models. "What worked in Mozambique will not necessarily work elsewhere," he said in Mapnto, as he prepared to leave for a well-earned rest. "There was a real will to restore peace here. No-one can impose peace on a people who wish to continue fighting."

It was not as simple as that. Mr Ajello, who arrived in Mozambique two years ago, saw immediately that the agreement signed betwaen Renamo and the Frelimo government would collapse under the pressure of the one-year timetable for demobilisation and elections.

"We had to introduce some flexibility into the calendar," he recalls. "The accord was too complex, there were not enough people to implement it, and the people were not good enough." After 17 years of fighting, most Renamo leaders were not well versed in implementing peace, while the Frelimo government, in power since 1975, resented the loss of sovereignty implicit in the UN'a tutelary role.

"We had to give time for both parties to overcome their distrust of each other, and we had to adapt the UN mission to the reality on the ground," Mr Ajello says.

The former enemies, however, dragged their feet over the demobilisation of their combatants. Mr Alfonso Dhlakama, the Renamo leader, kept his best men in the bush to strengthen his hand in political negotiations. The elections, rescheduled for October 1994, looked an unlikely prospect. Mr Ajello decided Mozambique could not survive another year of uncertainty, but he also realised that Renamo would not contest elections without the resources to fund its transformation from a military into a political machine.

"People were shocked that the UN was prepared to fund a former guerrilla movement," Mr Ajello concedes, "but the only way to make this mission a success was to forget conventional wisdom." The imbalances were too great. To make Renamo function as an equal partner in the peace agreement, it needed houses in Maputo, telephones, faxes and cars; Mr Dhlakama needed to be given the trappings of a political leader.

Mr Ajello believes $17m (£10.3m) – the cost of funding Renamo's election campaign – was a small insurance premium to add to the UN'a $500m peacekeeping operation in Mozambique. "We gave him enough to ensure he had too much to lose if he returned to war," says Mr Ajello.

The gamble almost failed. On the eve of the poll, Mr Dhlakama suddenly announced he was pulling Renamo out of the contest, convinced it would be fraudulent. Forty-eight hours of frantic negotiations finally brought him back into the fold. The election resulted in a Frelimo victory, but with a amaller margin than had been expected, and Mr Dhlakama accepted the outcome.

Mr Ajello is cautious about drawing broader lessons from the UN's controversial funding of a guerrilla movement. He believes it worked in Mozambiqua because the guerrillas were so obviously tired of war. In Angola, Somalia and Rwanda, where armistice accords collapsed, Mr Ajello is not sure political funding would have helped turn the tide in favour of peace.

Russia and Japan agree to boost ties

By John Lloyd in Moscow and William Dawkins in Tokyo

Russia and Japao yesterday signed agreements to improve economic ties and postponing Russian trade debts. The economic accords mark another small step towards the normalisation of Japan's strained relations with Russia, seen until recently as a dangerous and unreliable oeighbour.

Mr Oleg Soskovets, Russian first deputy foreign minister, aigned four ecooomic agreements designed to iocrease trade and restructure a small part of Russia's $5hn (£3hn) debt. Japanese officials quoted Mr Soskovets as saying: "We must huild trust oo all fronts, through political dialogue, military affairs and regional contact."

He complained, however, that trade with Japan had declined, and called for a oew high-level bilateral trade committee, chaired by Mr Soskovets and Mr Yohei Kono, the Japanese deputy premier and foreign minister, to speed up agreements on tax, investment protection and transport. Mr Kono said, however, that Russia must put its own ecooomic house in order before foreign investment would come in significant quantities.

The agreements allow Russia to extend repayments on $280m of debt to Japanese companies and the Japanese Export Import Bank over 10 years following a three-year grace period. There was also agreement to export 5m cu m of wood a year from Russia's Far East to Japan; a Japanese promise of $500m in humanitarian aid; support from Tokyo for Russian membership of the World Trade Organisation and Japanese support for the Russian economic reforms.

However, according to the Russian official news agency Tass, the Japanese refused a Russian request for an extra $130m of credits above tbe $400m already promised to aid the reconstruction of four huge plants – the AZLK car plant in Moscow, the Kamaz truck plant in Naberezhnye Chelny, the Impuls engineering plant in Petershurg and the Yaroslavl synthetics enterprise.

The ecooomic agreemeots cootinue a process which began with President Boris Yeltsin's visit to Tokyo just over a year ago, in which he agreed to opeo negotiations oo the four disputed Knrlle islaods off northern Japan, seized by Russia in the last days of the second world war. Tokyo agreed, in return, to relax its former policy of making any increase in Russian aid conditional on progress over the islands dispute.

Because of Russia'a ownership claim, Japan remains the only member of the Group of Seven yet to sign a second world war peace treaty with Moscow. The Kuriles are a popular symbol of both Japanese and Russian national pride. The Kuriles issue remains - according to a Japanese foreign ministry spokesman – "difficult and long-lasting". Mr Kono brusquely refused a proposal from Mr Soskovets to discuss economic co-operation on the Kuriles, saying this contradicted the Japanese position that they must be returned.

Today, Mr Soskovets is due to meet prime minister Tomiichi Murayama, and other ministers.

Japan's rural rice lobby clings to power despite deregulation

The old guard is reviving traditional tactics, writes **Emiko Terazono**

Japanese government officials often refer to the sacred importance of rice and the farmers' role as custodians of rural culture as the main reason agaiost opening the country's rice market. As the only food deemed to have a soul, and with sacred links to Shintoism and Buddhism, rice was more than just a commodity.

The reality is, however, that the spiritual importance of rice and the farming culture is fading for most urban Japanese. Seotimeotal images of the *furusato* – the old home village – are no longer symbols to which they adhere. The relationship between politicians and the provinces, meanwhile, has traditionally been more of a material kind.

Such links will be recoofirmed this week wheo the country's parliament ratifiea the government'a Uruguay Round farm package. Parliamentary discussions on the Y6,010ho (£38hn) package to help Japanese rice farmers face foreign competition when Japan opens its doors to imported rice next year, started last week.

The return to power of the Liberal Democratic party with the Social Democrats is behind the package conceived last month. Reformists who were in office at the end of last year forced through an agreement to import 4 to 8 per cent of domestic rice consumption over the next six years.

However, the old guard, relying on rural votes, has gone back to traditional politicking, appealing to the electorate by delivering large subsidies and public works allotments.

Politicians from rural areas, who threatened to block the parliamentary vote on the Uruguay Round accord unless it stipulated financial aid, are triumphant.

The spiritual importance of rice is fading — Freddie Mansfield

Meanwhile the rice lobby is trying to deflect criticism over its arm-twisting for subsidies, claiming the deal has yet to be determined. The Central Union of Agricultural Co-operatives (Zenchu) says the actual net increase in next year's annual hudget is still under negotiation between the agricultural and finance ministries. "The media's criticism is not fair since we don't even know how big tbe increase really is," says one Zeochu official.

But many agricultural economists are less concerned about the amount of money than bow it will be used. Rather than encouraging consolidation of inefficieot small part-time farmers and helping expansion by full-time farmers, most of the package is linked to public works spending and will only help to sustain the curreot inefficiencies.

Of the total, Y3,550hn is allotted to infrastructure including roads and draining paddy fields, Y770bn is to be spent on cheap state loans and Y890hn will be used for building facilities in rural areas.

Such funds will only support part-time farmers which comprise 80 per cent of the farming population and have become a leading barrier to increasing farm efficiency. They are the main supporters of the co-ops at the centre of the rice lobby and look after every aspect of rural life while acting as huge vote-collecting machines during elections.

However, it is already clear that neither farming subsidies nor the co-ops will revitalise Japan's agriculture. The number of Japanese farmworkers last year totalled 3.6m, or 2.9 per cent of the country's population, 42.3 per cent less than 20 years ago. The average age of farmers is 56, much higher than other industries where 45 is the average.

There are, however signs of change. In January, political reform will usher in a new electoral system giving urban voters more political clout as a result of redrawing constituency boundaries although the number of politicians supported by the farming lobby are not expected to be cut drastically.

It is also unclear how much effect the loosely worded food law, which governs the distrihutioo and retailing of rice, will have on deregulation when implemented next April. The agriculture ministry is said to be under pressure from the co-ops from shifting too much power to rice growers and new distribntors and retailers.

Professor Yujiro Hayami, who specialises in Japanese farming at Gakushuin University, says the return of the old political guard will delay farm restructuring. "Reform could eventually happen, hut by then the industry could be non-existent," he warns.

INTERNATIONAL NEWS DIGEST

Smokers back 'safe' cigarette

BJ Reynolds, the US tobacco company, has developed a new, virtually smokeless cigarette, marking its latest attempt to combat the anti-smoking sentiment sweeping the US. According to the New York Times, which was given access hy the company to tests conducted throughout this year, tha cigarette has won high marks from smokers who have tried it. Reynolds' previous "safe" cigarette, Premier, flopped soon after it was launched in 1988.

The new cigarette, known as Eclipse, works by passing hot air over tobacco without actually setting it alight. The hot air draws the flavour and nicotine from the tobacco but does not release the tars which produce noxious smoke and cause cancer. Mr Thomas Griscom, executive vice-president of Reynolds, is quoted hy the Times as saying: "This is where we hope the future of the company is."

Eclipse has yet to win approval from the US Food and Drug Administration. Since it contains a mechanism for delivering nicotine, it could be regulated as a drug under the FDA rules – something that normal cigarettes have so far escaped despite an FDA offensive this year. "Safe" cigarettes are also under fire from anti-smoking groups which argue that they could encourage young people to take up smoking. *Richard Waters, New York*

China to ease coal trade

China's Ministry of Internal Trade plans to ease controls on trading of coal but will retain control over some mines and some coal trading to back infrastructural development. A growing part of the remaining coal supply will be freely traded, the newspaper China Daily reported.

China has gradually eased government controls on a number of key commodities as part of its market-oriented economic reforms. In some cases, such as cotton, controls have been reimposed because of hoarding and quality prohlems. Easing restrictiooa on coal trading and distribution is intended to help improve the economic efficiency of state-run coal mines by allowing prices to rise, the report said.

Subsidies now used to help support indebted mines will be used to finance state coal purchases at higher prices.China's coal output betweeo January and October rose 5.8 per cent over the year-earlier period to 920m tons. Demand for coal, however, is growing at an annual rate of 7.4 per cent. The report said China's power plants alone would need an additional 20m tons of coal in 1995. Although overall supply exceeds demand, transportation bottlenecks prevent efficient distribution, it added. *AP-DJ, Beijing*

Walesa vetoes tax proposals

Polish President Lech Walesa has vetoed proposals to maintain income tax rates at 21, 33 and 45 per cent for 1995. Mr Walesa, who is dne to stand for re-election at the end of next year, argued that the rates were raised from 20, 30 and 40 per cent as a temporary measure in 1994 and should return to those levels in 1995.

The move could signify that the president is preparing for confrontation with the government coalition headed by Mr Waldemar Pawlak, the Peasant party (PSL) leader, over the budget when it is passed by parliament early in the new year. A successful veto on the budget would lead to early elections for parliament wbose term expires in 1997. The government, which has won the approval of the International Monetary Fund for its draft budget, needs a two-thirds majority in parliament to overrule a veto. *Christopher Bobinski, Warsaw*

Move fails against lawmakers

Taiwan's first vote to eject lawmakers failed yesterday due to low turnout. Only 18 per cent of the 2m eligible voters in Taipei county went to the polls in an attempt to oust four lawmakers from the ruling Kuomintang for their support of a controversial nuclear power plant which the atate-owned Taiwan Power Company plans to build. The leading opposition Democratic Progressive party, which controis the county, also invited voters to cast their ballot in a referendum on whether the country's fourth nuclear facility should be sited in Taipei county. But Taiwan's Central Election Commission, which supervises polls, has ruled the vote not legally binding as a law governing referendums has yet to be enacted.

The poor turnout could reflect badly on the DPP ahead of municipal and provincial elections to be held next Saturday, as opponents are likely to accuse the DPP of wasting taxpayers' money. *Laura Tyson, Taipei*

Algerian oil strike called off

The 110,000 strong Algerian oil and gas workers union has called off a three-day strike scheduled to start yesterday. Algerian newspapers headlined a last minute accord between the government and the oil workers union which was protesting against the restructuring of the national oil company Sonatrach. The union called of the strike after they reached agreement that the companies will be regrouped around Sonatrach. Sonatrach handles the production, transport and export of Algeria's oil and gas. *Reuter, Tunis*

Hong Kong railway lets off its head of steam

Contracts are coming fast after years of Sino-British wrangles, says **Simon Holberton**

Senior managers of Hong Kong's Mass Transit Railway Corporation (MTRC) are having a busy fortnight. Last week they let contracts valued at HK$6.6bn (£544m) for the corporation's HK$35bn railway connecting the colony's new airport to the business district of Hong Kong. This week managers hope to let a further four contracts for tunnelling and railway statioo development.

Mr Hamish Mathers, the corporation's chairman and chief executive, likens the process to shaking a bottle of champagne for a long time and then removing the cork. "In two weeks we have had [a Sino-British] agreement on overall funding, land has beeo made available for the railway and the Legislative Council has approved HK$23.7bn of funds."

The railway, like the airport at Chek Lap Kok which it is designed to service, has been a hostage to more than five years of bone-hreaking Sino-British talks on, first, whether to huild the project and then, how to finance it. In between talks became enmeshed in Britain and China's long running dispute ahout Hong Kong's political developmeot.

Unlike the airport, the construction of which has proceeded apace, physical work on the railway had to wait until China gave its approval to the overall financing for the project. Although the MTRC was unable to begin construction until a formal Sino-British agreement it has not beeo idle.

The cootracts awarded last week, and those to be awarded during this and successive weeks, were negotiated to a stage where they could be formally awarded the minute a Sino-British deal was sealed. Indeed, in the whole project there is just one major contract – a HK$3bn-plus mandate for the Hong Kong island terminus to the airport railway – that is still open for competitive hidding.

According to Mr Russell Black, project director for the airport railway, more than a year ago the MTRC decided to embark upon a tendering process that concluded with the corporation ideotifying successful hidders and issuing them with "option" letters.

"The successful bidder agreed to keep the price hid open for 12 months," he said. "We identified him as the preferred contractor and we assumed the rlsks of price escalation due to labour and materials costs, the risk oo currency if that was relevant, and the risk that statutory enactments might affect costs. We accepted these risks only during the period of delay."

Mr Black conceded that this was "a little unusual" but cited a parallel with London Underground's Juhilee line.

The airport railway constitutes a major expansion for the MTRC. Currently the corporation runs a rail service of 43km; after completion of the airport railway the length will rise to 77km. The corporation hopes to offer a service that takes arrivals to Chek Lap Kok on an 135km an hour journey from the airport north of Lantau island, to the central district on Hong Kong Island in just 23 minutes.

The additional track will also help relieve congestion oo the main rail service. At present the Nathan road section of the railway on Kowloon is the most extensively used railway in the world, used by 80,000 people per route kilometre per hour. The MTRC expects that 25 per cent of users of the current system will switch to the Kowlooo section of what will be known as the Lantau line.

More than a railway is being built. Above the stations the MTRC in partnerahip with local developers, will build 24,000 flats, 16 office towers, nine hotels (of 5,000 rooms in total) and five large shopping centres. Private property developers pay for the costs of construction hut share the profits with the MTRC.

Hopes, however, that the airport railway could be completed by mid-1997, when China resumes sovereignty, may not be realised. Mr Mathers says the corporation, once China approves borrowings of HK$11.4bn, will finalise an internal study on wheo the project can be completed. In the meantime he is sticking to a previous forecast that the line from the airport to Kowloon will open in April 1998, and the line to the central district some time after.

Mr Roger Mosa, finance director, is confident that the airport railway can be built for less than the HK$35hn allocated for the project. He is equally confident that he can raise the HK$11.4bn of debt for the project for which final approval is dependent on China's agreement to a financial accord between the MTRC and the Hong Kong government. The corporation has investment grade credit ratings from the main rating agencies.

This is because the MTRC is one of the few puhlic rail systems in the world which actually makes money. In the first six months of this year it had a profit after depreciation and interest of HK$500m. It pays no tax due to accumulated losses currently standing at around HK$1.8bn.

Mr Moss is wary of forecasting when the corporation will return to public debt markets – it has a requiremeot to raise HK$6bn a year for the next four years – but it is clear that he has been engaged in the financial equivalent of Mr Black's pre-tendering. When China bestows its final blessing on the airport railway, expect to aee equally quick activity in the capital markels.

Pirelli seeks to restore output to level reached before plant closure and cut in workforce

Italian tyres group to boost output

By John Griffiths

Pirelli intends to restore UK output to its level at the beginning of 1993, but with half the workforce and with only one manufacturing plant instead of two. The intentions of the Italian industrial group were disclosed when Mr Marco Tronchatti Provera, group chief executive, visited London for the launch of the Pirelli calendar.

More than 20 Pirelli plants have closed worldwide in a resturcturing which has started returning the group to profit after a bout of heavy losses. One of the 20 was at Burton-on-Trent in the English Midlands, a town best known for its breweries. All Pirelli tyre output has now been concentrated at the company's larger and more modern plant at Carlisle, about 150 miles to the north-west.

"What has happened is nothing to do with Pirelli's market or employee performance in the UK," Mr Provera explained. "Carlisle has perhaps the best workers of any Pirelli plant worldwide and so did the Burton production operations. In January 1993 we were producing 5,000 car tyres a day at Burton with a production workforce of 700, and 10,000 at Carlisle with nearly 1,000.

"Now, with 800 fewer people, Carlisle is already producing 13,000 to 14,000 tyres a day. And that is with a higher level of quality and without major investments."

A mid-term target is 15,000 tyres a day with half the total UK production workforce of January 1993, rising to 20,000. The Carlisle plant is being pushed into the unfamiliar role of developing premium tyres for some of Europe's more up-market carmakers. One early result is a sole supplier contract with Jaguar for its new XJ saloon range.

"Everyone wants tailor-made products now", says Mr Carlo Mazzantini, Pirelli's UK chairman and managing director. That means flexibility in tyre development and manufacturing processes to a degree the tyre industry could not have contemplated a few years ago – batches of fewer than 400 of a type are now regarded as viable.

Mr Mazzantini says it is not surprising that Pirelli wants to concentrate on this market sector. The UK tyre market now has 107 brands jostling for sales, of which 99 are in the "commodity" sector. That means they are sold almost entirely on price to people with little interest in the tyres' performance.

Mobil Oil, the UK refining and marketing arm of Mobil Corporation, the oil group, is to shift its headquarters from London to Milton Keynes about 40 miles north of the capital. Mobil Oil, which employs 470 people in London, cited high costs there as one of its reasons for moving. Milton Keynes was chosen from a list of 40 possible locations and the transfer will take place next summer.

Insurers issue liability warning to companies

By Ralph Atkins, Insurance Correspondent

Many UK companies face difficulties in obtaining adequate insurance cover from next year for deaths and injuries at work, say corporate risk managers and insurance experts.

Government officials will hold urgent discussions this week with insurance industry representatives about a decision by insurance companies to stop selling employers liability policies with unlimited cover. Insurers plan to impose a basic £10m ($16.4m) claims limit on policies renewed from January.

The move has created confusion about the extra protection companies will need to buy. "Many companies may be left without adequate cover against possibly very significant losses – to say nothing of the fact that they may not be meeting their legal obligations," said Mr Alan Fleming, executive director of the Association of Insurance and Risk Managers in Industry and Commerce (Airmic).

Airmic is alarmed that insurers have yet to draw up details of policies that would offer tha extra cover companies may require – even though there is little more than a month to go before the new limits are applied.

Insurers have imposed the cap because of the soaring cost of employers' liability claims.

The insurers' move means that companies are having to assess the extra protection needed to meet the cost of possible workplace incidents, however unlikely.

They also have to ensure that they comply with a 1969 law which says an employer must have at least £2m of cover. But the definition of "employer" is unclear and each subsidiary of a large group may need £2m of protection.

Guidelines drawn up by the Department of Employment say that each "employer" must be covered for at least £2m "in all circumstances".

A private report circulated by Sedgwick, the insurance broker, warns clients that "insurers we have contacted have indicated that an employer liability policy in the form required by the Department of Employment will be very difficult to achieve".

Power generation group blames Malysia trade ban

R-R explains loss of contract

By Chris Tighe in Newcastle upon Tyne

Malaysia's ban earlier this year on placing government contracts with UK companies has cost Parsons Power Generation Systems a contract worth more than £100m ($164m), says Rolls-Royce Industrial Power Group, the company's parent.

The contract, for two 500MW steam turbine generators for the new Port Klang power station, would have helped Parsons overcome the orders gap it faces.

The company's negotiations with the Malaysian authorities were halted when the trade ban was imposed in February.

The trade ban gave Parsons' US rival, General Electric, the opportunity to pursue the Port Klang order and letters of intent were signed just days before the ban was lifted in September. The oews that General Electric had won the contract was announced last week.

"We were very close to winning it," said Mr Richard Maudslay, managing director of Rolls-Royce Industrial Power Group. "These things happen; you have to get on with it. It's unfortunate but we will still continue to be active in the Malaysian market."

The loss of the Port Klang prospect reduces Parsons' chances of clinching new orders soon enough to avoid further job cuts.

Hopes of avoiding further redundancies now hinge on winning an order from Singapore for two 600MW steam turbine generators for the Tuas power station early next year, and quickly completing agreements on at least one of three Indian power station projects.

Societies prepare for job cuts

By Alison Smith

Generous voluntary redundancy terms are likely to be put to the 27,000-plus staff of Halifax and Leeds Permanent, two of the UK's largest building societies, as part of plans for combining the organisations.

Mr Mike Blackburn, Halifax chief executive, will today meet the society's head office managers to spell out the agreement to merge and then become a public limited company, which with £90bn ($148bn) in assets, would be the UK's third-largest high street bank. Later in the week he will meet managers at the Leeds, and meetings with trade unions are also planned.

Within the next week or so members of the two societies should receive letters setting out the broad outline of the agreement, and a helpline for customers will be operational from today

The overlap between the two societies' branch oetworks has already brought warnings from staff organisations that hundreds of jobs are at risk. While the societies' managements do not rule out compulsory redundancies, they would prefer the job losses to be voluntary.

They could face opposition not only from employees but also from customers who do not want to see a threat to staff in the 1,100 branches or a cut in service. The 10m investors and borrowers who own the two societies must approve the deal in order for it to go ahead.

Cost savings from combining the two networks will be an important part of making the deal a success.

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UK NEWS DIGEST

Second rise of 15% likely for newsprint

UK prices for newsprint are likely to rise by a further 15 per cent next year on top of the 15 per cent already signalled for January, says Mr Ramsay Hampton, chief executive of Aylesford Newsprint, a joint venture between SCA, the Swedish forestry group and Mondi, the European paper company.

"That additional increase would only get us back to the level of nominal selling prices [lowest selling prices] in 1989," says Mr Hampton, pointing to the deep recession from which the paper industry is only just recovering.

Aylesford Newsprint has invested £250m in building Europe's largest 100 per cent recycled newsprint mill in Kent, to the south-east of London. The company has started running its combined heat and power plant at the site and will commission the water and effluent treatment facility before the end of the year.

The new paper machine will produce 370,000 tonnes of newsprint a year, mainly for the UK market which is now 70 per cent supplied by imports.

Demand expected for cut in working hours

Workers may start to demand a cut in their working week because of the economic recovery, says Incomes Data Services, the independent pay analyst. The engineering and manufacturing sectors, in which employees are generally on a 39-hour week, are the most likely to face pressure for a reduction. The research group found "significant" differences between the working hours of manual and non-manual staff in a survey of 500 organisations.

Incomes Data found that holiday entitlements in the UK were lower than those in Italy, France and Germany. The most common level of holiday entitlement in the UK is 25 days a year, although it is often only 21 days in the retail and finance industries. UK workers are usually entitled to eight public holidays in a year compared with 14 in Germany and Spain and 11 in France.

● Pay rises in the engineering industry are running at just below 3 per cent, and fewer companies are imposing wage freezes, the Engineering Employers Federation said yesterday. It said a survey of 151 companies showed the average deal in the three months to October was 2.76 per cent.

Many women are paid far less than men

As many as 4m women in the UK - more than one third of female workers - earn less than two-thirds of median male weekly earnings, research published today by the Equal Opportunities Commission says. It also says women earn on average 79.5 per cent of men's wages. Women who are low paid are likely to have few, if any, educational qualifications, adds the commission. They are likely to work part-time in semi-skilled or unskilled jobs, and work in small, private sector firms in non-unionised jobs.

The commission has found a direct correlation between education and pay levels. Only 10 per cent of women with degrees or teaching qualifications are low paid, it says, against 68 per cent of those without qualifications.

Pensioner syndicate among millionaires

THE NATIONAL LOTTERY

A late rush for tickets boosted sales for the second draw of the national lottery to £47.9m, ($78.6m) only 2 per cent down on the first week's sales of £48.9m. Some operators of rival gambling businesses had predicted a sharp fall in lottery ticket sales after the high level of publicity surrounding the first week's draw. But Camelot, the lottery organiser, said sales had been particularly heavy on Saturday, with more than £2m-worth of tickets sold in one hour. The second draw, on Saturday night, produced the lottery's first millionaires, with four tickets sharing the jackpot prize of over £7m, yielding prizes of £1.8m each. One of the winning tickets was held by a syndicate of eight old-age pensioners living in sheltered accommodation in the country town of Newport Pagnell, about 40 miles north of London.

'Green' groups attack reform of state forests

Government plans for introducing market reforms into the way Britain's 1.1m hectares of state-owned forests are run face criticism today by two big environmental groups. The Council for the Protection of Rural England and the Royal Society for the Protection of Birds fear that imposing a more "businesslike" structure on Forest Enterprise, the commercial arm of the Forestry Commission, could be a way of preparing it for privatisation.

Early Beatles song hits $18,000 auction record

The first Beatles record played on a radio station has been sold by auctioneers Bonhams for £11,000 ($18,000) – a world record price for a commercially-produced disc. The early pressing of the 1962 hit Love Ma Do was a demonstration copy on the Parlophone label signed by Paul McCartney. Tony Prince, the disc jockey who inherited it in a clearout of the Radio Luxembourg record library, realised its significance.

He wrote to McCartney, who replied that, as far as he knew, Luxembourg was the first radio station to play a Beatles record. Love Me Do reached only number 17 in the UK charts, but subsequent records took the group to unprecedented worldwide fame. The 1962 record was bought by Spanish music publisher Mr Mikel Barsa.

MANAGEMENT

Sharp knives at Tenneco

Laurie Morse describes how the company managed to cut away $1.5bn in 'failure' costs

Dana Mead, chairman of Tenneco, last week stood before 450 top managers from the company's six divisions in Houston's convention centre and asked them an important question: after two years of relentless cost-cutting and restructuring how many thought the effort was running out of steam?

Mead expected thet as many as half would say yes, thet the corporate overhaul that had shaken $1.5bn (£910m) of what Tenneco calls "failure" costs out of the system was now cutting too near the bone, and that the managers who had faced the challenge were fully extended. "There is an exhaustion factor," he said later. "We've been on red alert for a long time. Someone asked me when things will get back to normal, and I said, 'this *is* normal'."

By way of the interactive keypads with which the conference tables were equipped, the answer flashed on an oversized screen within seconds; only 18 per cent of the managers in attendance felt the effort was flagging.

That response is certainly a tribute to Tenneco's quality programme, arguably one of the most far-reaching and sncccessful mounted in the US. Designed and implemented with the help of Armand "Val" Feigenbaum, the veteran US quality consultant, the programme is in large part responsible for Tenneco's turnaround from a $750m net after-tax loss in 1991 to a net profit of $412m last year.

Feigenbaum may not be as internationally renowned as the late W. Edwards Deming and Joseph Juran, who are usually credited with pioneering modern "quality" ideas. But the anthor of *Total Quality Control*, written 43 years ago, can also claim to be one of the founders of the worldwide quality movement.

The original link with Feigenbaum and his brother Donald, principals of Pittsfield, Massachusetts-based General Systems Co, was forged by Mead's predecessor Mike Walsh. A public-prosecutor turned corporate-turnaround expert who died of brain cancer this year at age 51, Walsh took over as Tenneco's chief executive in 1991 as losses at the company mounted.

Having already employed Feigenbaum's General Systems Co consultancy at Cummins Engine, where he had been charged to head off competition from quality-oriented Japanese companies, and again at Union Pacific, Walsh was convinced that a quality effort would produce dramatic results at Tenneco.

Making the gronp's six mature companies (all in slow-growth industries) competitive on the basis of lowest operating costs was one of the few options available when he took over.

At that time Tenneco was drowning in $6bn of debt, which represented about 70 per cent of its capital; faced a $750m, or $5.57 a share, loss for the year; and all six of its divistons had declining operating earnings. The dismal results came in spite of income from $7bn in asset sales that year.

Its acquisition in 1985 of J.I. Case, a farm and construction equipment company, had proved disastrous. High costs, out-of-control inventories, a cut-throat pricing policy and a farm recession threw Case into a tailspin almost the minute it was acquired. Subsequent efforts to save the subsidiary left the other divisions – an auto components manufacturer, a packaging company, the natural gas pipeline, Newport News Shipbuilding and Albright and Wilson chemicals – short on capital.

By 1991, Case's portion of the company's loss was $620m, with an additional $461m in restructuring charges tagged on.

Walsh did two things almost immediately thet have had a lasting effect: ha brought in his old friend Dana Mead, an International Paper executive, and put him in charge of mending the open wound at Case. He also called the Feigenbaums and asked them to join Tenneco's operating committee. This group of top officers – including divisional chiefs – is responsible for running the company on a day-to-day basis.

Within three months Walsh's team had targeted nearly 15,000 jobs for redundancy, sold $1.3bn in assets, slashed Tennsco's bloated dividend by half, reduced capital spending by $350m and issued $700m in new equity. It also initiated the Total Quality Management initiative guided by the General Systems consultants.

The General Systems approach to finding so-called "quality costs" is more like an ongoing fitness programme than a crash diet, Tenneco managers say. Quality costs are defined at Tenneco as the price the company pays for things done wrong, things thrown away or returned, or for the time that product and people sit waiting without generating revenue.

"We had been doing cost-of-quality programmes for some time, and thought we were competitive within our industry," says Dick Snell, chief of Tenneco Automotive. "Then Val [Feigenbaum] came in and broadened all the categories. By another definition our quality costs were a respectable 5½ per cent of our revenues, but using Val's system, we found our quality costs were 24 per cent." (Tenneco's overall revenues last year were $13.2bn.)

Cross-functional quality teams were formed, cost-cutting goals were set for every person in the organisation, and progress was monitored daily, weekly and monthly. The goals, and techniques used to meet them, were communicated to employees through "cascading" training: top executives attended classes knowing they would have to teach the material to their subordinates. Line employees became an integral part of the process, including union-represented labour.

Constant feedback from the General Systems staff kept everyone on track. Snell says: "The quality initiative became visceral to us, people could understand it. In the antomotive business, where margins are narrow, success depends on being low-cost producers."

Using the Feigenbaum brothers' processes, Snell's division looked in unusual places for failure costs, and found millions of dollars lying on the shop floor. Examining the scrap from pieces of car exhaust systems punched out of sheet metal, employee quality teams valued the useless leftover bits at $7m-$8m a year.

"We put a cross-functional team of engineers and designers on the problem, and within 18 months they had cut the scrap by half," Snell says.

Countless additional savings were engineered in other areas of Tenneco in a process thet worked from the bottom up. When management discovered thet headquarters staff felt immune to the cost-cutting goals, Mead sent an ultimatum – no sxceptions, no excuses.

Ilene Gordon, vice-president of operations, says General Systems not only provided a high-tech dstabase for corporate benchmarking, but it also created a means of communicating best practices to all of the divisions' operations, something lacking at the disjointed conglomerate.

General Systems has 11 staff members assisting various Tenneco divisions full time, most with on-site offices. The Feigenbaums' initial quality review suggested one out of every $4 Tenneco earned in sales in 1991 was wasted in useless costs, for a total of about $2.5bn.

The company's primary goal became taking out half of those costs over a three-year period. Tenneco reached the goal a year ahead of schedule. Of the $1.6bn saved, $690m has gone to the bottomline in profits, and the remainder has been reinvested in the company. Mead points out that the costs targets were hit in relatively flat markets, with nearly flat revenues.

Val Feigenbaum says Tenneco took out costs at about twice the rate of any comparable American company – the best results of any group he has advised in the US, Europe or Japan. He attributes the success to the unwavering dedication of Tenneco's executives to the process.

Still, he says, Tenneco is just getting started. With quality costs whittled to 17 per cent of revenues, the goal next year is to reduce such costs to 10 per cent, or another $1bn, and ultimately to reach world-class levels of 5 per cent.

Feigenbaum, whom Mead calls his "stealth guru", warned Tenneco employees at the Houston meeting that the company needs to achieve considerable top-line revenue growth merely to move out of the category of "average" performance. "You will be attempting to do something only a handful of American companies have been able to pull off: to continue to build your American husiness while expanding throughout the world," he says.

That challenge also troubles 58-year-old Mead who, besides continuing the cost-cutting programme pioneered by his predecessor, has charted a course of global expansion. His problem is thet while Wall Street gives the company credit for its excellent management systems, Tenneco's stock has dipped from $52.62 a share at year-end to about $41 recently.

Operating earnings may be rising and successful public offerings of newly-profitable J.I. Case Corp may have boosted Tenneco's cash by nearly $700m, but analysts still assign a "conglomerate discount" to the group and worry about the cyclical nature of its businesses.

Mead is consequently under pressure to make a $1bn acquisition in one of the three areas he has identified as Tenneco's core businesses: automotive parts, packaging and natural gas. But he has decided to take a conservative approach, reinvesting in domestic packaging operations, buying a German auto components company (Gillet) to fill a gap in that part of the business, and acquiring a small US power-generating firm to enhance the group's natural gas division.

Over the long haul he sees Tenneco's future in fast-growing emerging markets, and each of his company's six divisions has foreign expansion plans and joint venture prospects. Meanwhile, Mead intends to get Wall Street's attention by extending the group's quality programmes, and boosting its sub-standard return on capital by employing the now popular system of "economic value added" to measure profitability. His aim is for 15 per cent growth in annual operating earnings, with analysts expecting Tenneco's 1995 earnings to reach $4.25 a share.

The next phase of Tenneco's cost-push will attack an inbred part of the company's culture. Its six disparate divisions have long operated as independent companies, rarely sharing economies of scale. This year it has embarked on a project aimed at getting divisions to share purchasing, billing, finance, computer and personnel services, and to boost automation.

Internal studies estimate that savings from consolidated administrative functions will sdd about 40 cents a share to Tenneco's bottomline within two years.

PIONEERS AND PROPHETS

Tom Burns

Few managers around the world have heard of Tom Burns, a former professor of sociology at Edinburgh University. Yet he created a string of concepts which have had an increasingly powerful international influence since he retired 13 years ago. They have improved western management practice immeasurably – and made millionaires of several famous American pundits who embroidered them.

Burns, now 81, has written a new preface for *The Management of Innovation*, the pathfinding 1961 book which he wrote with G.M. Stalker, a psychologist. It has been reissued by Oxford University Press with a justifiably fulsome endorsement from Warren Bennis, one of America's best-known leadership experts. He describes it as "a major classic" which was "way ahead of its time" when published.

Written in refreshingly plain English, it is a riveting read and brims with insight after insight. Yet it was based heavily on a relatively modest study of the human and organisational difficulties which established Scottish companies experienced when they tried to develop and make electronic products.

The most significant breakthrough concept, much repeated since, was that machine bureaucracies of the type advocated by Max Weber (see last week's column) are far less effective at dealing with change and instability than what Burns and Stalker christened "organic" forms of organisation.

Closely allied new concepts, all of them far-sighted, were:

- That innovative organisations are "networks", in which control, authority and communication flow not from the top, but to and from the greatest loci of expertise and knowledge within the organisation.
- That individual behaviour in an organic organisation is influenced more by a perceived community of interest with it than by any contractual relationship. In other words, to use today's jargon, "shared vision and values" are vital.
- That lateral communication between people of different rank, resembling consultation more than command, is more important than communication up and down the hierarchy.
- That the most effective way of managing innovative projects is through multi-functional teams, led by the same manager from initial concept through to production and launch.
- That teams of different specialists – for instance from design, engineering and production – operate far more effectively if they "live close together" – or, to use modern jargon, are "co-located".

As so often when breakthrough thinking originates in Europe, few American writers have given Burns and Stalker the enormous credit they deserve. Apart from Bennis, one of the exceptions is David Nadler, whose 1992 book *Organisational Architecture* has become one of the most influential analyses of all the interconnected complexities of how modern business organisations operate – or should do so.

The reissued Burns and Stalker deserves to join Nadler on bookshelves on both sides of the Atlantic and further afield.

Christopher Lorenz

Out of synch with the Internet

MICHAEL THOMPSON-NOEL

I attended an internal market research briefing the other day. All extremely wonderful. Just as it started, the FT's marketing supremo breezed in and sat down beside me.

"Hi," she said, breathlessly. "I'm seeing a lot of you on tha Internet."

"!!!!" I replied, with the eloquence of a Patrick White character. "????"

She said: "It *is* you, surely?"

I said: "I am not availabla on the Internet. Nor will I be available on Odyssey, the constellation of 12 satellites thet will operate at medium-earth orbit – MEO, it's called – and provide simultaneous multi-regional communications services to users on a global basis by about 1999."

"Well," she said. "It *sounds* like you. There is without question a person on the Internet passing themselves off as you, with bits of your persona. Really most convincing."

I wondered if she was using "persona" in the Jungian sense. (You never know with thet lot.) But her news set me thinking. Why should anyone wish to impersonate me on the Internet? Is it a good impersonation?

I imagine that the impersonator has mastered the obvious elements: my serenity and cool; my been-there-got-the-T-shirt-but-go-on-surprise-me act; my cosmopolitanism; and my humorousness and charm.

But what about the less obvious aspects, the ones that must be difficult for an impersonator on the Internet to grapple with, such as my caringness and sharingness? If the person impersonating me on the Internet would like some tips, they should ring me on the telephone and speak to the horse's mouth. Do not reverse the charge.

Belatedly, I have been scrolling through the supplement produced by *Marketing* magazine that describes the latest winners in the Advertising Effectiveness Awards organised by Britain's Institute of Practitioners in Advertising.

These awards focus on convincing demonstrations of the commercial contribution advertising makes to business success, and attracted, this year, 74 detailed case histories from 30 ad agencies on behalf of some of Britain's biggest advertisers, including British Airways, BT, Cadbury, Procter & Gamble, Unilever, Whitbread and – the big winner – BMW, as well as many with far smaller ad hudgets.

The advertising business loves awards. Almost every night, it seems, there is a loud and vulgar dinner-do at some London hotel at which admen award each other a sackful of prizes. At one of these bacchanals, several years ago, I watched fascinated as the guest speaker, Sir James Goldsmith, was pelted with bread rolls by some of the rowdier revellers on the fringes of the ballroom for a speech deemed too rightwing for an audience of agency long-hairs.

I thought about throwing a roll myseif, but was distracted by a drunken argument at the press table which ended in a face-slapping. (Goldsmith stood his ground. His sang-froid was admirable.)

It is because the ad business is so promiscuous with its prize-givings thet the IPA's effectiveness awards – based, as they are, on very solid case studies – stand out like a bishop in a nightclub. They are the serious side of advertising.

Take the Health Education Authority's HIV-Aids prevention campaign, which won a silver award. You may recall that in its early days this campaign was rubbished by some critics for its "apocalyptic" tone. But the criticism was stupid. This campaign, via the BMP agency, has done the trick in keeping HIV and Aids before the public gaze. Additionally, condom usage among 16-to-34-year-old Britons has zipped smartly higher.

Over the six years to 1993, the HEA's campaign cost £15.4m. On the basis that it costs at least £30,000 annually to support someone with Aids, it is calculated that the campaign has paid for itself if it helps to prevent, on average, 51 cases of HIV infection a year.

What is significant is that the prevalence of Aids in Britain had dropped from 93 per cent of the European Union average in 1984 to 54 per cent last year.

Funnily enough, the striking thing about advertising is not its effectiveness, but its *in*effectiveness. It is breathtaking how much expenditure is wasted.

One of the reasons is that advertisers use mass media to communicate with quite small target audiences. This plunges some adpeople into gloom. They wail and slash their breasts – forgetting, it would seem, thet salvation is round the corner: that in the information superfuture, the fragmentation of the media into thousands of glittering shards will greatly boost the effectiveness of their ads.

Perhaps you think you are impervious to advertising. Almost certainly you aren't. But the likelihood is that it will become *astonishingly* effective as techniques improve. In hundreds of years' tima there will still be prize-giving bacchanals in ritzy London hotels – and long-hairs hurling rolls, or so I shouldn't wonder.

BUSINESS TRAVEL

Lufthansa fined

The Philippines Supreme Court has found German airline Lufthansa guilty of turning away a Filipino passenger with a valid ticket to Africa. It ordered the airline to pay him $23,200 in damages, *reports Reuter*. The court said the carrier's failure to fulfil its obligations to a former Philippine Central Bank director on his way to Malawi was aggravated by the rude behaviour of a Lufthansa employee in Bombay. The customer was "bumped" by Air Kenya, with which Lufthansa has a pooling agreement, on a flight from Bombay to Nairobi. The Lufthansa officer in Bombay threw down the man's passport when asked to help, the court said. The court said that under an arrangement between members of the International Air Transport Association, Lufthansa guaranteed that carriers like Air Kenya would honour customers' connecting flights. "[His] trip by several successive carriers is regarded as a single operation" of the German airline, the court said, explaining its ruling against the airline.

Literary snapshot

A galaxy of writers, including seven Nobel laureates, published a literary snapshot of the world last week with diaries of a day plucked at random: April 29 1994. The French magazine Le Nouvel Observateur compiled accounts by 240 writers and called them A Day in the World. Colombia's Gabriel Garcia Marquez says he was woken on April 29 by a telephone call to his hotel room and a woman's voice saying: "Felipe expects you for dinner at eight." A frequent traveller, the writer checked his location by consulting the sign he had posted by his bedside the night before: "*I am in Madrid.*" His dinner host was Spanish prime minister Felipe González.

Tokyo's Euro-hotel

Do not disturb

Business travellers tired of Japan's drab 1970s-style international hotels may find comfort in the Tokyo Westin in Yebisu Garden Place, the shopping, restaurant and office complex which opened in central Tokyo last month, *reports Emiko Terazono*. Done up in "neo-classical European style", it is one of the few hotels in Tokyo with any character. Until next February, prices in the hotel start from Y19,500 per person, including breakfast. After that: from Y28,000 per person.

Jamaica safer than US

Crime-weary Jamaica is touting the results of a new study which found that visitors are at higher risk in various US cities than in Jamaica. A study by Richard Bennett of American University, Washington, found that visitors are three times more likely to be killed in the US capital than in Jamaica. Using 1992 statistics, the study compared Washington, Orlando, Miami and New York with the Jamaican resorts of Ocho Rios, Montego Bay, Negril and Port Antonio. It was found that Jamaica's resorts have a combined murder rate of 22.58 per 100,000, compared with 75.21 per 100,000 for Washington and 37.89 per 100,000 for Miami.

BT in the air

Britain's BT has announced an air-borne fax and data service for airlines and business jets that is said to operate at twice the speed of existing facilities. Initially the service will be available across an area from the Pacific to the Persian Gulf, via satellite consortium Skyphone.

The service will become global when software is installed shortly at ground earth stations in Singapore and Norway. BT said: "The lack of a faster fax and data facility has held some [airline] operators back from [installing] on-board passenger communications."

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong	27	26	26	27	26
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Frankfurt	6	8	5	3	1
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
L. Angeles	21	22	25	24	22
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Paris	9	14	13	11	10
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Maximum temperatures in Celsius

Information supplied by Meteo Consult of the Netherlands

Health in the air: tablets might control the jet-lag, but BA aims to save passengers from themselves

Rewind your body clock

As a regular traveller and news junkie, I am an avid fan of Cable News Network and the BBC World Service. Usually, the first thing I do on arriving in a hotel room after a long flight is switch on the television and catch up with what has happened while I was airborne.

The problems begin when watching television becomes an enforced alternative to sleep. Flipping through the channels while sitting bolt upright in an unfamiliar bed in the small hours is not my idea of a good time. Battling against a wall of fatigue the next day is even worse.

Over the years, such torment has led me to search systematically for a jet-lag cure that really works. Apart from regimes which involve fasting for several days before a flight – a remedy as painful as the affliction – I think I have tried almost everything.

Going easy on food and alcohol and drinking plenty of mineral water in-flight helps a bit. So does Dioralyte, a rehydrator which restores body fluids removed by cabin pressurisation. Arnica, a homoepathic treatment for shock, can also make a difference. Camomile tea induces bed-time drowsiness without the morning-after effects of sleeping tablets.

But all are only partial solutions. It was not until last summer that I came across something which really seems to attack the causes of the problem. Called melatonin, it comes in the form of tablets which you dissolve under the tongue at bedtime, starting three days before a flight and continuing for three days after.

I have used melatonin so far on two trips to the far east and one to the US. It has done the trick each time, enabling me to sleep soundly for several hours during the flight and adjust quickly to the local time-zone on arrival. So much so that after a recent 19-hour journey from Seoul via Hong Kong, which landed at Heathrow at 5.30am, I was able to enjoy a friend's birthday party that evening and do a full day's work the next day.

What is melatonin's secret? According to Clive Cookson, the FT's science editor, it is a natural substance and its efficacy is scientifically based. It works by supplementing the hormone which sets the human body clock and is normally produced only during hours of darkness.

Melatonin is sold by health stores and is not a registered pharmaceutical. It has therefore not undergone extensive laboratory testing. As one of its first guinea pigs on the FT, I am being closely monitored by sceptical colleagues waiting for me to turn green or suddenly go bald.

So far, I am happy to report, there has been no evidence of side-effects. It is also reassuring that melatonin is widely used by scientific researchers into jet-lag. Anyway, any adverse symptoms would have to be pretty bad to equal the ordeal of severe jet-lag.

● *Melatonin is available from Revital Health Stores, 3a The Colonnades, 123/151 Buckingham Palace Road, London SW1 W9RZ*

Guy de Jonquières

Rub your nose, hook a finger in your ear...

Business travellers on stressful long-haul flights are generally forced to work out for themselves how to deal with the crapulous exhaustion that results from many hours in the air with little diversion other than food, drink and a flickering TV screen.

But do-it-yourself regimes can be useless. Avoiding excess and keeping to the path of virtue so that you get off your aircraft feeling half-way human is not only a hit-and-miss affair but calls for the sort of self-restraint that few possess.

Which is why British Airways launched its Well-Being in the Air scheme last year to try to save passengers from themselves. The scheme was an umbrella concept which took in, *inter alia*, abstinence from alcohol and red meat, much exercise, organised rest, and sprays and gels to stop the skin from drying out. Its aim was modest: "To reduce the effects of flying and help you arrive in better shape."

Initially the scheme was only a partial success. As a BA spokesman puts it: "Some of the exercises were a little vigorous, and people tended to end up waving their arms about madly. Some were even unlucky enough to clout their neighbours."

As for the dietary restrictions: "The special well-being menu was based on the yin-yang principle which, in reality, meant it was heavily vegetarian – at times, positively vegan – which didn't suit everyone." Nor was everyone impressed by the relaxation tape.

So BA tried again this year, with an improved programme that includes a tub of rehydration gel to neutralise cabin air, a rose water facial spray to relieve dry skin, and a soothing eye compress to freshen tired and puffy eyes.

The programme also boasts a new relaxation tape with a commentary by psychologist Dr Avic Sigman. And the airline suggests that occasionally you bring your knees up to your chest five times, hook the tips of your fingers in your ears and lean your head over, and rotate the tip of your nose with the palm of your hand.

'People tended to wave their arms about madly and some clouted their neighbours'

Is anyone taking advantage of BA's thoughtfulness? "Well, if one passenger does it, quite a lot of them start to do it," says BA. No figures have been collected to find out how popular the scheme has become, but there have been hundreds of requests for the Well-Being brochure. "We even got a call from the FBI, asking if they could use our exercise programme for their new recruits."

This may be an idea whose time has yet to come. A mini-poll of those airlines which might have been expected to provide something similar – such as Swissair, United Airways, Cathay Pacific and Virgin Atlantic (which offers aromatherapy on the ground) – produced denials or obfuscation.

Only Japan Airlines seemed interested in offering a comparable service. It does not offer a complete programme but will give you an in-flight health drink containing royal jelly and kiwi fruit juice, a honeycomb face-mask which helps prevent dehydration in the nasal passages, an audio relaxation tape, and a list of in-seat exercises (less strenuous than BA's).

The fact is that well-being programmes will remain a rarity so long as competitive advantage depends on being seen to offer the traveller more, not less. When you consider the airlines' efforts to promote in-flight consumption, it is not surprising that most passengers – no matter how experienced – will tend to capitulate and eat and drink what is bad for them the moment it appears on their laps.

On a long flight self-denial is of only limited help in overcoming jet-lag, the most serious physiological drawback of long-distance flying. No well-being programme can compensate for this massive derangement of your internal clock. Nor, say some, can anything else, including such recently tested remedies as Chinese acupressure, intense-light regimes and the hormone melatonin (see accompanying story).

If you are going to feel fairly dreadful *whatever* you do on an aircraft, you might as well indulge yourself.

Charles Jennings

MEDIA FUTURES

Salford hits superhighway. . .

Stephanie Flanders explains how the city plans to make the most of broadband cable networks

Think of the pathbreakers in the information revolution, and your mind probably turns to business moguls like Bill Gates or techno-wizards at the Massachusetts Institute of Technology. Few would add Salford City police force to the list. Yet the partners in a new venture in north-west England are aiming to do just that.

Nynex CableComms, one of the three largest cable operators in the UK, is teaming up with Salford's city council and universities to make the area, near Manchester, e test-bed for exploring the interactive potential of broadband cable networks in the provision of local services.

They are not there yet. But the project is already helping to overturn some of the received wisdom about where the first lanes on the information superhighway might lead.

The American-owned cable operator, the licensed cable provider for the region, has spent the past six months agreeing the tsrms of the experiment with local partners. These are: the City of Salford, the University of Salford and University College Salford (which will merge into a single university in the middle of 1996).

Provisionally entitled "GemiSys 2000", the plan is that the three parties will collaborate in setting up local experimental broadband services in a range of public-sector settings. "We're not talking about the traditional video-on-demand type stuff," says John Edwards, Nynex's regional director in Salford. "The five areas are crime prevention, community service, healtb, education and training and local business development."

The choice of sectors emerged from discussions with public servants from all over the city, held earlier this year. Experiments in the US with a Massachusetts-based interactive medicine channel and various distance-learning programmes have already shown the scope for applying the new fiber-optic technology to health and education. But crima prevention?

"The acting chief superintendent of police was at one of the sessions," explains Jane Bentley, one of the project co-ordinators at University College Salford. "Nynex gavs a quick technical demonstration, and that triggered a lot of ideas. We wsre worried at first, because tha policeman was the only one not saying anything. But right at the end, he suddenly came out with a whole list of ways he could use the network: everything from sending out high-quality Identikit images to transmitting DNA and other records to other stations."

It will be several years before some of the more ambitious ideas are translated into reality, if ever. But the partners are hoping to start early pilot projects in most, if not all, of the five areas by the start of next year.

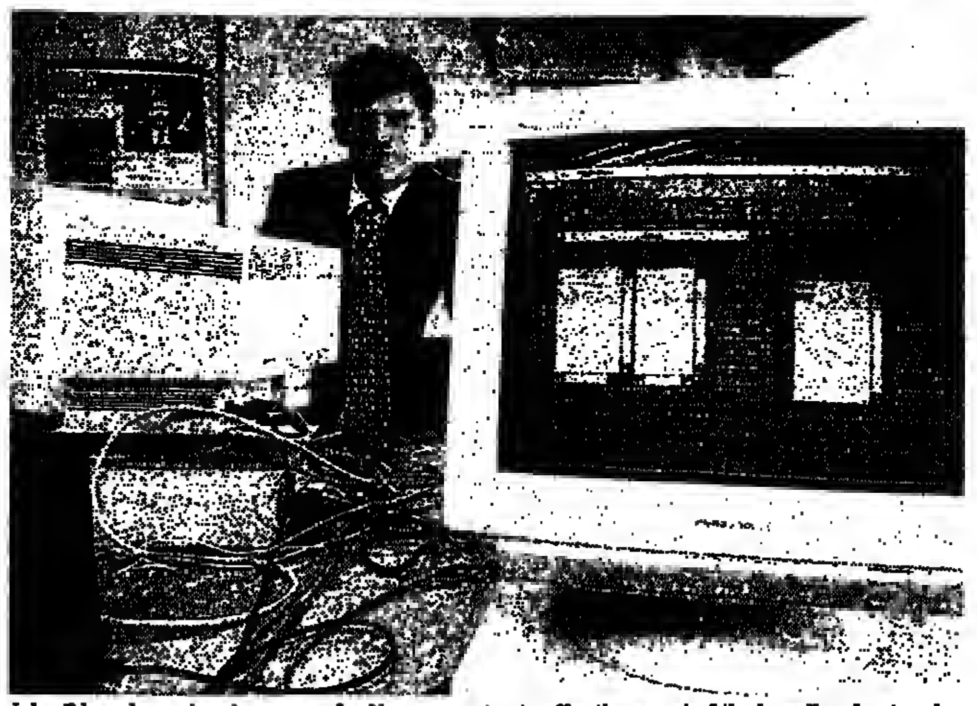
"There's a number of opportunities that I think could be exploited pretty readily," says John Willis, chief executive of the city of Salford. "For example, we can't afford to staff as many council information centres as we'd like. I think we could move fairly quickly towards using the network to supply information about local services more efficiently. We're talking months, rather than years."

For their part the two universities are planning to use the project to build on their establisbed interest in developing commercial and educational applications for the new information technologies.

"The Open University, as currently conceived, has taken current technology ebout as far as it's possible to go," says John Squires, principal of University College Salford. "What we're talking abont here, among other things, is the possibility for a kind of Open University, Mark 2, that exploits the benefits of interactivity in an accessible and exciting way."

For the cable operator, which expects to invest around £20m in the project, it is clearly an opportunity to foster goodwill among the local community. This can be in short supply for a company that spends most of its time digging up streets. But the company also sees a long-run commercial rationale.

John Edwards, regional manager for Nynex, admits that the company's earliest encounters with local councils are usually to discuss holes in the road and burst water pipes. "You try to offer them the carrot of the broedband network thet will follow. Initially, they're not that interested: they want to know why the roads are in such a mess. But more recently we've had some very positive discussions."


John Edwards, regional manager for Nynex: you try to offer the carrot of the broadband network

Cable operators elsewhere in Britain have similarly tried to foster good community relations within their franchise areas. "Tbe geographical nature of the franchise system means that the operators are very locally focused", says Niall Hickey, press spokesmen for the Cable Communications Association. "They want to establish tbemselves as good corporate citizens."

This has led a number of companies to build up links with local schools and other public bodies. In Croydon, for example, United Artists Communications has now cabled up around 85 per cent of the local secondary schools, at heavily discounted prices. The company is now working with local teacbers to see bow scbeduled cable programmes can help in teaching different parts of the curricola.

By and large, such projects have tended to look at how schools and others might take advantage of cable aervices tbat already exist. But the commercial – and technological – bottom line to all the civic-worthiness is the need to foster demand for fiber-optic services which have yet to be invented.

The UK cable industry plans to invest around £10bn by the end of the decade laying cable networks nationwide. At present, cable providers can earn a return on this investment offering entertainment, a banned segment of the market for British Telecom, as well as standard telephone services. But the ban will be lifted sooner or later – sooner, if BT's lobbying is successful.

By then, BT is likely to be able to offer popular video-on-demand services over its existing telephone network. All the cable companies would like to see evidence that they will be able to earn a return from services which are only possible on their (higher-capacity) networks.

Nynex has now laid cable for about one fifth of the 2.5m homes, and 150,000 businesses, in its 17 franchise areas. Salford is a little further developed: the company hopes to have 40 per cent of the local network laid by the end of next year.

It will be a while before there is a comprehensive network nationwide, so most of the first practical demonstrations will necessarily be geographically confined. But the logic of the Salford project is that finding ways to let people interact, locally, is not merely a stopgap to them interacting with the world outside.

There are two reasons for this. First, local public agencies could be a fertile source of potential fiber-optic applications in their own right, responsible for a wide range of information and activities to which the new technology could usefully be applied.

The second reason is that it is not only suppliers of new technology that must walk before they can run. The development of applications must, to some extent, be demand-led. And consumers and businesses are more likely to think of new products to demand if they have already seen the network fill a local niche.

"No-one is denying that broadband networks can allow you to be talking to the world", says Carl Grose, executive director of Nynex for the north-west. "But when it comes down to it, you're still talking about people. We're not going to make money offering facilities that are somehow 'worldwide', but are actually anonymous at a local level."

Critics bemoan the lack of a "big picture" in the government's piecemeal approach to re-cabling the UK for the interactive era, since it could mean that some parts of the country get left behind.

Yet the Salford project indicates that, for all the worries about universal coverage, some individual communities could benefit from the rather limited horizons of the companies laying cable in their area. Indeed, Salford's first trip down the information superhighway may be just round the corner.

Magazines score big with factor X

By Victoria Griffith

A new breed of magazines is making a splash in the US. So-called Generation X publications with self-consciously unconventional covers and enigmatic names like *Who Cares*, *Bikini*, *Wired* and *Monk*, are the latest trend in magazine publishing. They are aimed at – and usually published by – the 18-to-30-year-olds who comprise Generation X, and their numbers are expanding fast. Among this year's entrants: *Swing*, *Axxess* and *Might*.

The slant of the magazines offers a new way to court a demographic segment that the entertainment and advertising industries have found elusive and difficult to please.

"They allow advertisers to appeal to young trend-setters," says Harvey Goldhersz, assistant media director and Generation X guru at the Grey Advertizing agency in New York.

Early Generation X magazines were launched with low budgets and low circulations, but the latest versions have more financial beef behind them. The magazines will not reveal the size of their funding, but savvier ones like *Swing*, *Wired* and *Axxess* are sleek and laden with advertising. *Swing*, which bowed in last month, reportedly sold a respectable 200,000-plus copies of its first issue.

Magazines like this can be a god-send, says Goldhersz, because they allow advertisers "to tap into the mindset of Generation X and keep up with what's hot and what's not."

The term Generation X was coined because of the difficulty of labelling today's 18-to-30-year-olds. Unlike the baby boomers of the 1970s and the "me" generation of the 1980s, Generation X seems to older observers to lack strong identifying characteristics.

The magazines' editorial content offers some clues to the vagaries of today'a youth. Unconventionality is a key feature. James Monk, editor of *Monk* magazine, for instance, leaves messages calling himself "The Mad Monk" and can only be reached at various motels across the US.

Many of the magazines place as much emphasis on technology as on clothes. They interview bosses of multimedia and software firms, and run articles on microchips, the Internet and virtual reality. Most of them attract a great deal of technology advertising, along with more predictable ads for clothing, music and entertainment. *Who Cares* shows yet another side of Generation X: it is targeted at young volunteer workers.

The magazines may not work for all advertisers, some of which may well stick to tried-and-true outlets like MTV and *Sports Illustrated*. But many advertisers seem happy to have found a new way of communicating with such a huge number of consumers.

. . . but drivers face bumpy ride

Study highlights first skirmish in a UK multimedia war. **Alan Cane** reports

Traffic is beginning to build on the European information superhighway.

Some vehicles are still experimental. The Unom project (Users, Network Operators and Manufacturers), for example, has Matra Ericsson Telecom as prime contractor, and aims to bring banking advice and facilities to customers through self-service kiosks. It is funded by the EU's advanced telecommunications research programme.

Others are run-in and carrying passengers. In Denmark, Homevision, now three years old, is distributing multimedia information – text togetber with video pictures – abont residential properties for sale over its network.

In the UK, Wigwam Information is providing a similar service and has five trial sites, inclnding an estate agency owned by the TSB high street bank. The criminal element has not been slow to take advantage of these services, however. In Sweden, video footage of the interior of e bouse sent over the network was used to plan a burglary.

These examples of current developments on the information superhigbway are used by Analysys, a Cambridge-based telecommunications consultancy, to underline its conviction that multimedia is here to stay, driven by growing demand for information and entertainment and tha declining cost of computers and communications.

In a new report it warns that existing players are in for a bumpy ride. In particular, it sees British Telecommunications' announcement earlier this month of market trials of video-on-demand, home shopping and banking over its existing network as the first skirmish in a UK multimedia war.

The spoils for tbe winner will be considerable. According to Analysys: "For the incumbent telecoms operators, this changing environment represents an opportunity to establish leadership in the new generation of fixed telscoms services that will succeed basic telephony.

"Domination of broadband provision in the local loop will be the key; the first operator to reach the home or small/medium-sized enterprise witb affordable broadband access will be in an unassailable position for many years to come."

Broadband refers to the network capacity needed to transmit voice, text and video interactively over telecommunications lines. The local loop is the connection between a telephone subscriber's home and the telephone exchange. In Britain, BT is forbidden from broadcasting entertainment over Its network under government rules that will not be reviewed until 2001. This is to give the fledgling cable companies the opportunity to establish themselves in the market place. However, cable companies are allowed to offer voice telephone services, and Analysys says that in the ahort term these services offer lower risk than multimedia: "Demand is well establisbed and equipment to support them is readily available at low cost."

It goes on to warn, however: "Cable TV operators should neither ignore the long-term potential of multimedia, nor delay so long that they lose their current advantage."

Choosing the critical point at which to enter the conflict and what resources to employ will remain difficult questions for tha big players. Despite a sharp decline in the cost of technology, building a network to support multimedia services still requires substantial investment. "Network operators will need to be confident that there is scope for adequate returns," Analysys says, pointing out that in business it may be difficult to justify investment in multimedia services qualitatively.

"A recent trial of internal video-conferencing for a financial institution in London found tbat away-from-desk time could be reduced by 60 per cent. But real gains in productivity are difficult to isolate from other factors influencing performance," says Analysys. Residential users, on the other hand, may be prepared to pay for a broad range of services througb besic subscriptions and additional premium payments for special services.

Analysys argues that these charges are unlikely to meet the cost of providing the service and tbat part of the income for the network operator or service provider will have to come from savings in overheads.

A retailer, for example, could make substantial savings by cutting down on retail premises and warebousing. Electronic payment for goods could eliminate much of the administration costs of traditional payment systems. Advertising is another potential source of revenue, althougb it is by no means clear how it migbt operate on the information superhigbwey. Subscribers might pay a premium for accepting material without advertising or receive a discount for accepting it.

Analysys says the advent of multimedia services will bring fundamental reforms in long-distance telecoms tariffs for both residential and business customers, pointing out that existing costs would put, for example, video-on-demand well beyond the pocket of the average subscriber.

It will also have profound consequences for the regulation of telecoms services throughout Europe. "There is a great deal of ambiguity in existing regulatory frameworks which must be resolved quickly if early growth is to be encouraged...Europe must create a uniform environment across different member states if it is to realise the full potential of networked multimedia," says Analysys. There will be no room, in other words, for drivers on the wrong side of the superhighway.

Multimedia in Telecoms by Simon Norris and Susan Ablett, Analysys Publications, St Giles Court, 24 Castle Street, Cambridge CB3 0AJ, £695.

PEOPLE

Germany's man of tomorrow and his problems of today

Christopher Parkes looks at the challenge facing **Jürgen Rüttgers,** recently appointed as the country's first minister for the future

Freshly installed as Germany's first minister for the future, Jürgen Rüttgers faces a busy time dealing with some matters from the past before he can hope to look very far ahead.

One job in particular – the establishment of a national academy of sciences – seems tailored to provide him with the experience he will need when he gets round to dealing with the responsibilities loaded on to his 43-year-old shoulders by Chancellor Helmut Kohl.

Rüttgers, head of a combined super-ministry in charge of education, science, technology and research policies, has already been warned by friendly observers that the federal (some might say tribal) make-up of the German scientific community provides it with an in-built resistance to centralisation and political tampering.

Bnt Boun has decreed that a national body is needed to complement and provide a point of contact with similar organisations in other industrialised countries. During Rüttgers' maiden ministerial speech on Friday, he won promises of support from the opposition Social Democrats, despite lingering suspicions that the academy of sciences might turn out to be a pure propaganda factory.

It is now up to Rüttgers to build the necessary consensus, which will require him to test in an alien environment the skills of persuasion which he has hitherto only applied in smoke-filled back rooms in the Bundestag.

The new minister was formerly chief whip to Chancellor Kohl's Christian Democratic Union and its Bavarian sister party, the Christian Social Union, and respected among conservatives and Social Democrat opponents alike as a thoughtful and persuasive politician.

Since he first took his seat in the Bundestag in 1987, he appears to have risen through the upper parliamentary atmosphere without creating any of the enemies customarily found smouldering in a shooting star's wake. He endeared himself to his party leadership by taking on complex and apparently thankless assignments, such as the challenge of an esoteric and decade-old inquiry into bow to monitor and assess the impact of new technologies on society.

It was a process initially regarded with deep suspicion by the liberal Free Democrats, the junior coalition partners, and the opposition. But Rüttgers won through, and now the Bundestag has a modest advisory bureau: not because the government wanted it, but because Rüttgers apparently came to believe in the concept.

"Those who want to take advantage of the liberating potential of technology must improve their understanding of the short- and long-term effects and side-effects of [related] political decisions," he was to comment later.

As that quotation suggests, Rüttgers, described as using his brain more than his elbows while in the chief whip's joh, may not be the snappiest wordsmith in the Bundestag. But his adherence to such principles is likely to make him more than a match for the Greens and other outright techno-antagonists in parliament.

He returned to the theme again on Friday when he repeated a previous acknowledgement that there were limits scientific progress could not overstep, particularly wbere human dignity might be impeached. But the question of whether mankind was already capable of doing everything it had to be able to do to handle hunger, unemployment, sickness and environmental damage demanded an answer, he said.

Principles aside, the minister of the future also showed himself a master of the art of making a promise and then suggesting that its fulfilment might not be terribly important.

Spending on future-oriented projects would be increased, he proclaimed. But money was not the real issue. "Innovation starts in the head," he said, and German minds were more in need of change and innovation than any departmental budget. The Jeremiahs and doubters had the upper hand, he added.

He will find no shortage of such types in regional educational authorities, nor among the autonomy-minded scientific research institutes, where the minister is charged with balancing the various and often conflicting requirements of vested interests in local, regional and federal government, industry and academia.

One of the chancellor's favourite projects, for example, is to reduce the time students spend at university before entering work. As the chancellor enjoys saying, Germany cannot afford to educate people up to the age of 30 and then allow them to start drawing retirement pensions at 60.

Industry, meanwhile, demands that university study should be funded by loans rather than grants, and complains that highly-specialised German college courses turn out too few of the business-minded, broadly-based graduates increasingly to be found on the payrolls of international competitors.

At the same time, the business world demands that "excessive" expenditure on basic research in government-funded institutes should be diverted into work more relevant to the needs of an economy which has a structural deficit in innovation. According to the electronics industry association, ZVEI, only 50 per cent of basic research projects in Germany have any economic relevance.

The dislocation of the relationship between business and government, the responsibility for which many lay at the door of a neglectful Chancellor Kohl himself, has been painfully exposed hy the wrench of recession.

The coalition's ideas for an academy of science and a research, technology and innovation council as a central clearing house for political, business and scientific ideas, is intended as part of the cure for the neglect.

Drafting grand ideas and even leading the intended participants to the meeting table is the easy part. Planting the idea that innovation might start in *their* heads is the real job facing the minister of the future, who will be assured of a substantial future of his own if he pulls it off.

NAMES IN THE NEWS

Pierson to sit tight in Airbus cockpit

There were rumours earlier this year that Jean Pierson, chief executive of Airbus Industrie, was going to eject from the cockpit of the world's second biggest aircraft maker, writes John Ridding. However, the decision to ask him to stay on for another three years suggests that Mr Airbus may at last be able to push through a long overdue shift to a less unwieldy corporate structure.

By extending Pierson's contract until March 1988, shareholders of the four-nation aerospace consortium have opted not to change both the chairman and chief executive of Airbus in the same year. Daimler-Benz chairman Edzard Reuter took over as chairman of the Airbus supervisory board last March and the renewal of Pierson's contract not only reduces the risk of turbulence in the boardroom but maintains the balance between French and German interests in the consortium. Aérospatiale of France and Dasa of Germany both hold a 37.9 per cent stake, while British Aerospace owns 20 per cent and Spain's Casa owns 4.2 per cent.

The maintenance of the Franco-German division of the top two positions was not a foregone conclusion. Germany, through Dasa, has been seeking to extend its influence in the day-to-day running of the company and had considered a reshuffle of the management.

British Aerospace, Dasa and Pierson have argued that a shift towards the status of an ordinary limited company is increasingly necessary. It would increase the transparency of the organisation and promote greater efficiency. Airbus is not obliged to publish audited accounts and acts more as a marketing consortium whose members own the group's assets and share manufacturing contracts. Now that the 54-year old Pierson has been reconfirmed, one of his first tasks may be to push through a reform of Airbus's legal status as a GIE or *groupement d'intérêt economique*.

Such a change would help Pierson in his principal challenge – closing the gap on Boeing. In this respect 1994 has started rather well, with Airbus winning orders for 69 new aircraft, or 55 per cent of the market for aircraft of more than 100 seats. As the consortium admits, however, this is a short time by the standards of the airline industry. It is also a short time in terms of Pierson's new tenure.

Riverso: mutual benefit to Barings

As if Alitalia chairman Renato Riverso did not have enough to do piloting Italy's state airline through a turbulent restructuring, he has now taken on the chairmanship of Baring Brothers (Italia), writes Andrew Hill.

There are five professionals in Barings' Milan office who maintain close contact with another five-strong team in London. Small beer, compared with the sprawling Alitalia empire, or Riverso's previous remit as chairman and managing director of IBM Europe. Nevertheless, Riverso, 61, sees the job taking up "10 or 20 per cent" of his time, as against 50 per cent at Alitalia.

Paradoxically, he thinks supporting foreign competition could give a boost to the underdeveloped Italian investment banking sector. "The Italian financial world needs to grow in knowledge and experience in the various segments of the business, and this is an area where the contribution of foreign banks is vital," says Riverso.

Barings, London's oldest merchant bank, is keen to advise on more privatisations, and expand corporate finance advice to the country's thriving small- and medium-sized companies. Indeed, the only area in which the new recruit is unlikely to benefit Barings is in winning more business from Alitalia itself: the airline is advised by J.P. Morgan, admits Riverso.

The peak of Groen's career?

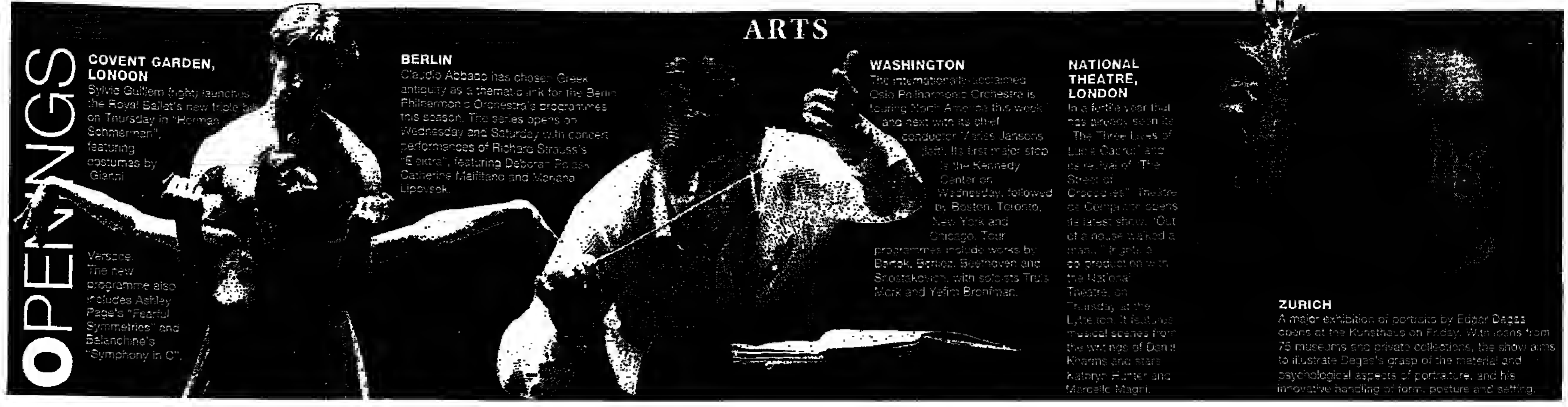
A holiday in the Himalayas would seem to be the perfect spot for pondering the future of one's career if one lives in the unending flatness of the Netherlands, writes Ronald van de Krol. Or so it was for Harry Groen, the driving force behind the international expansion of Dutch credit insurer NCM, who returned from Nepal last week and announced he would be resigning in May after more than 30 years at the company.

His surprise resignation is the second big upheaval within the three-man NCM board this year. In August, the deputy chairman Dick Bruinsma quit abruptly in circumstances which have never been fully explained. Bruinsma has not yet been replaced.

Groen (below) denies that his own departure is the result of tension with the company's board of supervisors following Bruinsma's resignation. "After 31 years at NCM, of which 20 years were in a director's role and seven spent as chairman, the time had come to reconsider my future," he says.

Still only 50, Groen joined NCM as a 20-year-old clerk and quickly worked his way up the corporate ladder. Under his stewardship, the credit insurer took a great leap into international expansion when NCM acquired Britain's Export Credits Guarantee Department when the UK government privatised in 1991. Since then, it has found partners or opened offices in Israel, Sweden, Norway and Belgium.

Groen says he has absolutely no idea what the future holds for him now. "No idea" is also his response to whether he will stay in financial services or even whether he will remain in Amsterdam.



Richard Eyre, director of the Royal National Theatre, makes his operatic debut at Covent Garden

Soprano shines in glowing, timeless Traviata

There was no lack of advance publicity for the Royal Opera's new production of *La traviata*, though in the circumstances that was not surprising. Any opera-house appearance by Sir Georg Solti, now 82, is going to be an event, even more so with him conducting *La traviata* for the first time in his life. When he invited Richard Eyre, the artistic director of the National Theatre, to try his first venture into opera, the stage was set for a major operatic event.

What the hype failed to do was get the right person in the spotlight. When Verdi wrote *La traviata*, the role of the conductor was only just being properly defined and producers were non-existent. The opera stands or falls depending on its lead soprano. In Venice, in 1853, it was a fiasco (Fanny Salvini-Donatelli was overweight and off-form). At Covent Garden, last Friday, the soprano shone and the whole evening glowed with her.

Angela Gheorghiu is a rising star. The Royal Opera has nurtured her carefully over the past few years, starting her off with Zerlina in *Don Giovanni*, then moving her on to Puccini's Mimi, and its patience has been rewarded. Making her entrance as if she is stepping out of a Winterhalter canvas, she looks and sounds born to play Violetta. One dab of iced water out of the champagne bucket and she is running up and down the scales of "Sempre libera" as if she has been singing the music all her life.

Perhaps her Romanian predecessor, Ileana Cotrubas, hit the solar plexus harder (her joyous laughter in Violetta's final moments still sends shivers down the spine 20 years on), but even she had not mastered every detail like this. Gheorghiu barely sings a phrase that has not been refined with the vocal equivalent of a nail-file. Every dot and dash in Verdi's score, every tone colour, was there; and what a joy to hear so much quiet singing.

That is where Solti has played his part. Decca is recording these performances live (word about Gheorghiu has spread quickly in the business), and it will get music-making as scrupulously prepared as in any studio recording. Solti was adamant about performing the opera without the usual cuts, so we get rarely-heard second verses, not just automatic repeats, but each time given with new meaning. One could sense the audience was really listening.

For his part Richard Eyre has worked with Gheorghiu to build a believable character. This is basically a traditional production, which keeps its eye on the ball. Sound old principles like character development count for more than eye-catching quirks. The first meeting of Violetta and Alfredo is a typical example: he starts by sitting modestly on the other side of the drawing-room, then circles his prey before tentatively planting a kiss on her cheek in time to the duet's final chord.

Like Gheorghiu, Frank Lopardo as Alfredo sings with exemplary attention to detail and sensitivity – their duets together are lovers' whispers, not grand opera bawling.

But I do wonder what they would make of him in Milan, where Italianate top notes count for more than musicianship. Leo Nucci lacks the vocal elegance for Giorgio Germont (try the old 78s recorded by Battistini) but worked hard to phrase broadly under Solti's tutelage. There were useful cameos from Leah-Marian Jones as a spiky Flora and Gillian Knight as Annina.

Are Bob Crowley's needlessly lavish designs the main drawback? Not so far as design quality is concerned *per se*. Swirling staircases and heavily-ornamented gold ceilings make handsome settings for the public scenes, although it was illogical to have the stage area so cramped for those when the private scenes are so spacious. Alfredo's country retreat is a veritable palace and Violetta dies in what looks like a white-shuttered aircraft hangar. The music and the drama demand the opposite.

The problem is that the bulkiness of the sets makes the intervals as long as the acts in between. I suspect that audiences in the future may curse this production as they go into Act 3 at the time of night when they were hoping to be on the train home. For this run of performances, though, nobody is likely to mind. Forget the 23.10 from Waterloo. So long as Gheorghiu and Solti are making music, time stands still.

Richard Fairman

Sponsored by Barings and the Jean Sainsbury Royal Opera House Fund. Performances (with some changes of cast) until December 19


Angela Gheorghiu and Frank Lopardo

Warm welcome for Khovanshchina

No harder to pronounce than "Khrushchev" (and much easier than "Shchedrin"), Mussorgsky's ultra-Russian *Khovanshchina* earned a warm welcome to the English National Opera repertoire last week. Perhaps for budgetary reasons, the ENO seems to have staged fewer historical epics of late than it used to, though its Cinemascope stage invites them. Still, the number of epic-historical operas that have been composed is hugely disproportionate to the number of masterpieces; and among those few, *Khovanshchina* – a bag of "unfinished" sketches though it is – must stand near the top in any thoughtful ranking.

In the ENO programme-book, Paul Griffiths argues persuasively that "unfinished" and fragmentary was just what *Khovanshchina* had to be. It is *the* Russian opera about the looming impact of Peter the Great; but neither Peter nor his close relatives could be depicted on the stage. Therefore Mussorgsky gave his dispassionate attention to the lesser players and their factions, drafting his own libretto as he went: the worried conservative boyars, the Westernising sophisticates, the unregenerate Old Believers in ancient orthodoxy.

Since they all lost, they could not shape the ultimate story, which neither began nor ended with them. In Francesca Zambello's cool, skilful production, the rival groups strut their forces and connive in turn, none favoured above the others. The focal point of Alison Chitty's sets is a metal-frame pillar which unfolds to become walls, bridges, bleachers; the only elaborate costumes are those needed to establish roles and ranks. The complicated plotting is rendered unusually clear – and mercifully it takes three and a half hours instead of the predicted four.

The leaders are cast from strength: Willard White's imperious, dignified Prince Khovansky, Kim Begley's dandyish Prince Golitsyn, Gwynne Howell's lofty Dosifey, the Old Believers' leader. For greater depth of character, we should probably need to have real Russians. The young bass-baritone Paul Whelan makes a striking debut as the sinister boyar Shaklovity, with Howard Haskin a clever Scribe, and as tragic Marfa Anne-Marie Owens is all anxious urgency and warmth. Cathryn Pope and Maria Moll make creditable work of their shrill, ungrateful roles as Emma and Susanna.

On Thursday the conductor Sian Edwards found vivid touches in many scenes, less in the way of steady breadth. The sense of panoramic unfolding was unconfident: she tends to rush at things. (Even the marvellous "dawn" prelude stammered slightly, with a singularly pallid clarinet and a misfired climax.) Later performances should expand more grandly. The second act risked sagging, though at the start of the third the sight of Khovansky dallying with his Persian slave-girls in a swimming-bath cheered everybody up.

The ENO has opted for Shostakovich's version. Mussorgsky got no further with a full orchestral score than two short passages; as with *Boris Godunov*, Rimsky-Korsakov published his own version after the composer's death – more expertly bright than the amateur Mussorgsky could have devised (or might have wanted to), much cut and with many fussy "corrections" to the stark harmonies.

In the latter respects Shostakovich is incomparably more faithful, but he indulges a very sweet tooth for chiming effects. (Mussorgsky had been dead ten years when Tchaikovsky first introduced the celesta for his Sugar-Plum Fairy.) They supply instant theatrical *Affekt*, of course – just as *Rimsky's prinked-out orchestration* did, and no less of a modern distortion. This fine ENO production should gain depth and patina with time, without need of those dubious cosmetics.

David Murray

MTV awards in Berlin

It was an awesome sight. The curtain rose to reveal one of the most dramatic backdrops in the world, the Brandenburg Gate; not a painted pastiche but the real thing, swathed in blue light. After this moment of grandeur the first MTV European Music Awards found their level when a bearded figure with solicitor's glasses bounded on stage looking worryingly like Sammy Davis Jnr. He turned into George Michael singing, of course, "Freedom".

Berlin was the perfect spot for this new pop prize, not because of its political significance but because pop music, and the clubs it spawns, is about the only activity Ossies and Westerners enjoy together. They certainly mobbed the venue, described as "the largest temporary structure in the world", and built abutting the Gate. And they did not seem to mind the Coca Cola logo crawling all over it.

This was the West in all its tacky brilliance.

The new awards, called the Matthews for no obvious reason, seemed immediately timeless: media creations like supermodel Naomi Campbell and a girl from *Baywatch* handing out "globes" to stars who either smarmed over, or clowned with, the audience, a reputed 240m homes world wide.

To some amazement Take That was voted Best Group, which suggests we must expand their shelf life from four to five years. Among the other newish names, Prodigy won Best Dance, and Crash Test Dummies, Breakthrough Artist of 1994.

But the awards also showed up the terrifying conservatism of pop – Best Male was 35-year-old Bryan Adams; Best Rock band Aerosmith, the heavy metal outfit blasting through their third decade. Mariah Carey was the safe Best Female.

The event was cherishable for its musical vignettes: the decidely quaint Bjork, who crawled out of a hole dressed like a raspberry mousse, skipped around the stage singing "Big Time Sensuality", rolled around on her back and disappeared again into weirdo land; George Michael, who is in legal limbo, premièring a new song (a certain smash) called "Like Jesus to a Child", backed by enough strings to parcel Christmas; Tom Jones, who after years as an object of mockery has suddenly become a pop icon, introducing the show with inadvertent Teutonic humour; and, most priceless of all, a cameo song from "the artist formerly known as Prince", *climaxing* with the sad mantra, "Peace to George Michael. Peace to MTV. But death to Prince."

That's one mixed-up mannikin millionaire.

Antony Thorncroft

INTERNATIONAL ARTS GUIDE

■ PARIS

OPERA/BALLET
Champs Elysées Tel: (1) 47 23 37 21/47 20 08 24
● La Dame de Pique: opera by Tchaikovsky. Director Valery Gergiev at 7.30 pm; Dec 1, 2
● La Khovantchina: opera by Mussorgsky at 7.30 pm; Nov 29, 30; Dec 3, 4

■ BERLIN

OPERA/BALLET
Deutsche Oper Tel:(030)3 41 92 49
● Dialogues des Carmélites: by Poulenc, in three parts. A new production directed by Günter Krämer. Conductor Jiří Kout at 7.30 pm; Nov 29; Dec 1
● The Magic Flute: by Mozart. Conductor Foster/Lang-Lessing/Soltesz at 7 pm; Nov 30

■ AMSTERDAM

CONCERTS
Het Concertgebouw Tel: (020) 671 8345
● Bernard Haitink conducts the Royal Concertgebouw Orchestra, with soprano Karen Huffstodt, mezzosoprano Hanna Schwarz, and baritone Csaba Airizer to perform Schoenberg and Bartók at 8.15 pm; Dec 1, 2
● Moscow Philharmonic Orchestra: conducted by Vassili Sinaiski play Beethoven and Mussorgsky at 8.15 pm; Dec 8
● Nikolaus Harnoncourt: conducts the Royal Concertgebouw Orchestra to play Schumann and Bruckner at 8.15 pm; Dec 7, 8
Het Muziektheater Tel: (020) 551 89 22
● Die Fledermaus: by Strauss. Conductor, Ralf Weikert, production by Johannes Schaaf at 8 pm; Dec 6, 8
GALLERIES
Rijksmuseum Tel: 020 673 21 21
● Art of Devotion 1300-1500: major winter exhibition focusing on the spiritual function of objects in the medieval period; to Feb 28 (Not Sun)
OPERA/BALLET
Het Muziektheater Tel: (020) 551 8922
● Rosa: new production of the opera by Andriessen. Directed by Peter Greenaway at 8 pm; Nov 28

■ LONDON

CONCERTS
Barbican Tel: (071) 638 8891
● Gala Concert: London Symphony Orchestra with mezzo-soprano Marilyn Horne and conducted by Marvin Hamlish. Includes Hamlisch's, 'The Anatomy of Peace' at 7.30 pm; Dec 1
● Grand Operatic Evening: National Symphony Orchestra with soprano Susan McCulloch under the direction of Martin Merry perform a variety of operatic pieces at 7.30 pm; Dec 3
● Sir Colin Davis: conducts the London Symphony Orchestra in a concert to mark Finnish Independence day. Music of Sibelius, Mozart and Stravinsky at 7.30 pm; Dec 8
Festival Hall Tel: (071) 928 8800
● Philharmonia Orchestra: with conductor Charles Dutoit and pianist Peter Jablonski play Tchaikovsky (piano concerto No. 2) and Shostakovich (symphony No.5) at 7.30 pm; Dec 6, 8
● Royal Philharmonic Orchestra: with conductor Vladimir Ashkenazy and pianist Shura Cherkassy play Rubenstein's piano concerto No. 4 and Tchaikovsky's Manfred Symphony at 7.30 pm; Dec 7
● Russia Old and New: Royal Philharmonic Orchestra with the Brighton Festival Chorus, London Choral Society and conductor Vladimir Ashkenazy perform Schnittke, Prokofiev and Rachmaninov at 7.30 pm; Dec 5
Queen Elizabeth Hall Tel: (071) 928 8800
● The Fall of Icarus: Multimedia event inspired by Bruegel's, 'Landscape with Fall of Icarus'. Belgian director Frédéric Flamand collaborates with Italian artist Fabrizio Plessi and composer Michael Nyman at 7.45 pm; Dec 2, 3
GALLERIES
Barbican Tel: (071) 638 8891
● A Bitter Truth: a multimedia exploration of changes in attitudes towards World War 1 throughout its duration; to Dec 11
Hayward Tel: (071) 261 0127
● Romantic Spirit in German Art 1790-1990: examines work of early Romantic painters. Includes section on German Expressionists; to Jan 8
National Portrait Tel: (071) 306 0055
● Christina Rossetti: an exploration of the Victorian poet on the centenary of her death; to Feb 12
Royal Academy Tel:(071) 439 7438
● The Glory of Venice: a major survey of Venetian art in the 18th century; to Dec 14
OPERA/BALLET
Barbican Tel: (071) 638 8891
● The Kirov Opera: director Valery Gergiev brings his entire company to the UK for just one night to give the first complete British performance of Rimsky-Korsakov's opera, The Legend of the Invisible City of Kitezh at 7 pm; Nov 28
English National Opera Tel: (071) 632 8300
● Ariadne on Naxos: by Strauss. A Graham Vick production at 7.30 pm; Dec 1, 8
● Khovanshchina: new production of Mussorgsky's opera. Director Francesca Zambello at 6.30 pm; Nov 30; Dec 3, 6
● The Magic Flute: by Mozart. Originally produced by Nicolas Hytner, John Abulafia directs this revival with conductor Alex Ingram at 7.30 pm; Nov 29; Dec 2
Royal Opera House Tel: 071 240 1200
● An Ashton Celebration: The Royal Ballet Company pays tribute to its founder choreographer with a short festival of his work consisting of 12 ballets and divertissements. Performance includes a new production of Daphnis and Chloë by Ravel at 7.30 pm; Nov 28, 30
● La Traviata: by Verdi. A new production by Richard Eyre. Georg Solti conducts for the first five performances, then Phillipe Auguin. In Italian with English subtitles at 7.30 pm; Nov 29; Dec 2, 5, 8
● Mixed Programme: includes Fearful Symmetries choreographed by Ashley Page, and Symphony in C by Bizet, choreographed by George Balanchine at 7.30 pm; Dec 1, 6, 7
● The Sleeping Beauty: a new production of Tchaikovsky's ballet. Produced by Anthony Dowell, set designed by Maria Bjornson at 7.30 pm; Dec 3 (2 pm)
THEATRE
Barbican Tel: (071) 638 8891
● New England: World premiere of Richard Nelson's new play. No performance 12-15th Dec., otherwise at 7.15 pm; from Nov 29 to Dec 29 (Not Sun)
Donmar Warehouse Tel: (071) 369 1732
● True West: by Sam Shepard, directed by Matthew Warchus. Michael Rudko and Mark Rylance (who swap roles on alternative nights) play two warring brothers at 8 pm; to Dec 3 (Not Sun)
Gielgud Tel: (071) 494 5065
● Hamlet: by Shakespeare. Directed by Peter Hall, designed by Lucy Hall. With Stephan Dillane, Michael Pennington, Donald Sinden and Gina Bellman at 7.15 pm; to Feb 4 (Not Sun)
National, Lyttelton Tel: (071) 928 2252
● Out of a House Walked a Man: by Daniil Kharms. A Royal National Theatre and Theatre de Complicite co-production of a collection of musical scenes by the Russian absurdist writer at 7.30 pm; Dec 1 (7 pm), 2, 3 (2.15 pm), 5
National, Olivier Tel:(071)928 2252
● The Devil's Disciple: play by Bernard Shaw, directed by Christopher Morahan. Sat and Tues mat at 2.00 pm; to Nov 30 (Not Sun)

■ NEW YORK

GALLERIES
Museum of Modern Art Tel: (212) 708 9480
● A Century of Artists' Books: Exhibition of 140 books from some of this century's foremost artists; to Jan 24
OPERA/BALLET
Metropolitan Tel: (212) 362 6000
● Don Giovanni: by Mozart, sung in Italian at 8 pm; Nov 28; Dec 2, 6
● Lady Macbeth of Mtsensk: by Shostakovich at 8 pm; Nov 30; Dec 3, 7
● Madama Butterfly: by Puccini at 8 pm; Dec 1, 5, 8
● Rigoletto: Italian opera by Verdi at 8 pm; Nov 29; Dec 3
New York State Theater Tel: (212) 870 5570
● The Nutcracker: by Tchaikovsky, performed by the NY City Ballet. Tue-Thu 6pm. Fri 8 pm. from Nov 30 (Not Mon)
THEATRE
Walter Kerr Tel: (212)239 6200
● Angels in America: Tony Kushner's Tony-award winning play. Sun mat at 3pm. Wed., Thurs., Sat. at 8 pm; to Dec 4

■ WASHINGTON

GALLERIES
Phillips Collection Tel: (202) 387 2151
● Pictographs of Adolph Gottlieb: exhibition of one of the founding members of the New York School; to Jan 2

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Samuel Brittan

Suddenly we have a world upsurge

Suddenly the world uptnrn has moved so far into its stride that boom may be a more appropriate word than mere recovery. Indeed commentators from the financial sector are already worrying whether the boom might not become too much of a good thing.

These international developments have important implications both for tomorrow's UK Budget and even more for the meeting between the chancellor and the governor of the Bank of England eight days later on December 7. For in the present world environment the last thing the UK economy needs is a domestic stimulus or even unnecessary red ink in the Budget. The improved fiscal outlook should be enjoyed entirely in the form of a more rapid move towards eliminating the budget deficit. Even the CBI accepts that UK base rates will need to rise by about 1½ percentage points. The first move should be made in days.

It is fruitless to seek the causes of the pronounced world recovery. There are inherent tendencies for world demand to rise in line with world productive capacity; and it is the slumps and booms that require explanation. The US economy was being actively stimulated by cheap money until last spring and the subsequent tightening has been well short of draconian. In West Germany there was not so much a recession as a move from the excess demand resulting from unification spending.

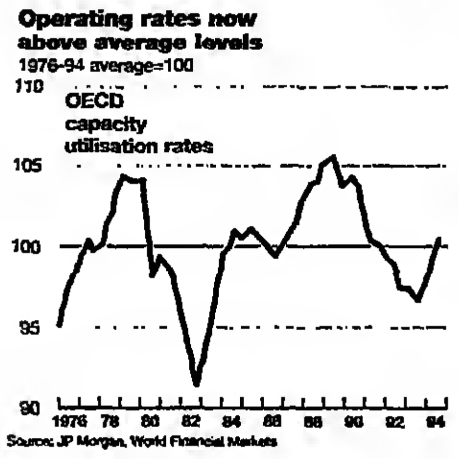
Unfortunately the interest rates required to remove this excess demand were too high for the rest of Europe where a genuine recession was produced. But with German short interest rates now back to normal and a very sharp recovery in that country's eastern Lander, the special depressing forces have ended. Least noticed of all, Japan has at long last snapped into a recovery in spite of continued deflation in domestic producer prices. What seems to have happened is that Japanese producers have again adjusted to an excessively high exchange rate and an over-cautious monetary policy by levering costs and prices downwards.

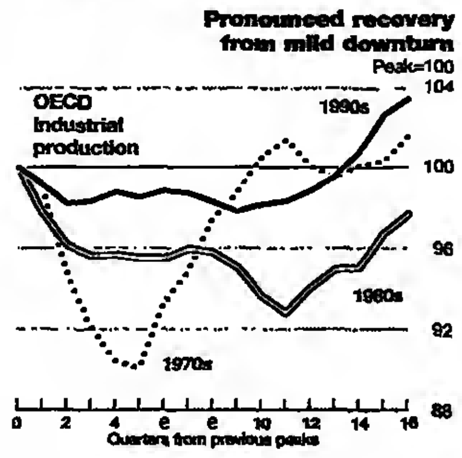
The US investment firm of JP Morgan contends that capacity utilisation in industry is already above its long-run average – not just in the US, but in the OECD as a whole. One reason for this is the shallowness of the recession of the early 1990s. That recession was greeted with cries of pain because it struck more than previous downturns at the more articulate financial and white-collar sectors. The last business cycle was also unusually unsynchronised; the US was already recovering while Europe was entering recession.

Morgan economists argue that one or more year of spritely outward growth will result in operating rates akin to the late 1980s when economies were very strained. This applies especially to countries such as the US, Canada, Australia and those "on the periphery of Europe" that have given their economies a kick-start from devaluation.

The above analysis is disputed by the rival investment bank of Goldman Sachs, which argues that companies tend to be too gloomy about their capacity at this stage of the business cycle; that new types of electronic equipment can be run more nearly flat out; that some of the inflationary strains can be taken by importing more from the developing countries; and that employing more workers, for instance in shift work, can make existing capacity go further. But the Goldman Sachs economists do not dispute either the existence of a pronounced world upturn or the need at least for the Bank of England and the US Federal Reserve to tighten policy again (in spite of the latter's recent tightening).

My own view is that macroeconomists and financial analysts do not have a special insight into the technicalities of productive capacity. They would do much better to analyse world growth in terms of nominal demand, measured by nominal gross domestic product or one of its derivatives, and whether that needs to be restrained, stimulated or (most often) left alone.





Five years after launching a campaign to liberalise Europe's energy markets, the European Commission has made only limited progress in increasing competition among electricity and gas producers.

Amid concern over the effects on consumers of dismantling what are in many cases state-owned monopolies, many energy companies have stubbornly resisted attempts to open up the market.

Liberalising markets will be high on the agenda when European Union energy ministers meet in Brussels tomorrow. The Commission regards the creation of a free market in power and gas as one of the most important elements in creating a single market for goods and services.

"How can you ask, say, the chemicals or metals industries to compete without access to energy on similar conditions?" asks Mr Claus-Dieter Ehlermann, director-general of the EU competition directorate. "What is at stake is the credibility of the internal market and the competitiveness of European industry."

One reason for the slow progress in liberalising European energy markets is the relative lack of competitive or public pressure. The need to deregulate parts of the telecommunications market was clear to most EU member states, as technological changes made existing national and European regulations less relevant. And consumer pressure for cheaper air fares encouraged progress in the airlines industry.

In the absence of such pressures, there are powerful lobbies against greater competition. National energy monopolies have encouraged their customers to believe that change in gas and electricity markets might threaten safe delivery of supplies and push up prices. To many consumers, the scope for competition looks limited because it makes no sense to have rival electricity grids and gas pipe networks.

There is also opposition to change from the workforces in the gas and electricity companies, which amount to 1m people in the EU. Concern about potential job losses is heightened by the experience of the UK electricity market, one of the first to be deregulated, where some companies have shed more than half their staff.

A single energy market would not necessarily break up large integrated monopolies. But it would remove their monopoly rights to generate power and supply it to the customer.

A chip or two off the old barriers

Michael Smith explains why progress in opening up Europe's energy markets has been slow

The Commission argues that such competition would make utilities more efficient: prices would fall and become more uniform across the Union. It has adopted a two-pronged approach for achieving this.

The first prong involved forcing countries to end statutory monopolies enjoyed by national utilities to import and export gas and electricity, which the Commission says are illegal under EU law. Several cases are progressing through the courts, though none has yet concluded.

The second prong is legislation to improve competition within member states. A proposed directive, first drafted in 1992, would require energy companies to "unbundle" themselves, by separating the financial accounts of their production, transport and distribution arms.

This would make it more difficult for these companies to subsidise loss-making parts of their businesses out of the profits from their monopoly over distribution of energy. New companies would then find it easier to enter the market, if they could see that they were able to undercut the energy utilities in particular parts of the business.

The main stumbling block to agreement on the directive is what is known as "third party access", obliging energy companies to allow competitors to use their networks for an "appropriate" charge.

Thus PowerGen, the privatised UK generator, could supply electricity to French industrial companies through the French national grid. Currently, if it wants to export to France, PowerGen can do this only by selling power to Electricité de France, the monopoly power company.

Third-party access is opposed by most European power and gas companies, with the support of many members of the European Parliament and some of the larger governments. They argue that energy needs special protection from competition, because of the size of investment needed in the industries. Long-term planning would be more difficult if they were subjected to full competition, endangering security of supply, at a cost to at least some customers.

There are also fears of cherry-picking – that large energy users might be picked off by foreign energy companies, leaving the national company with the less profitable users. In Italy there are fears that if other countries were to supply large energy users in the north, the poorer south could be left to shoulder the costs of the indigenous system.

And companies in countries such as Germany and Belgium fear they could not compete with their counterparts in, say, France, because of different regulatory, taxation and social regimes. Some German companies say they are not against third-party access in principle, and are as efficient as their foreign competitors. But their prices are higher as a result of an obligation to buy expensive German coal.

Similarly, Mr Michel Loncour, a strategy manager at Tractebel, the Belgian energy company, says that competition will be unfair if companies operate under different national rules: "Europe needs harmonisation on issues like environmental protection, the security of nuclear plants, taxation, subsidies and the cost of capital," he says.

The Commission is currently considering a common energy policy for Europe, but agreement is politically difficult and some years away. That offers little immediate help in creating a free energy market.

The Commission could consider formulating a final directive around the concessions already made by opponents of more reform. For instance, most countries would probably agree to "unbundling" the accounts of electricity monopolies and introduce competitive tendering for new plants.

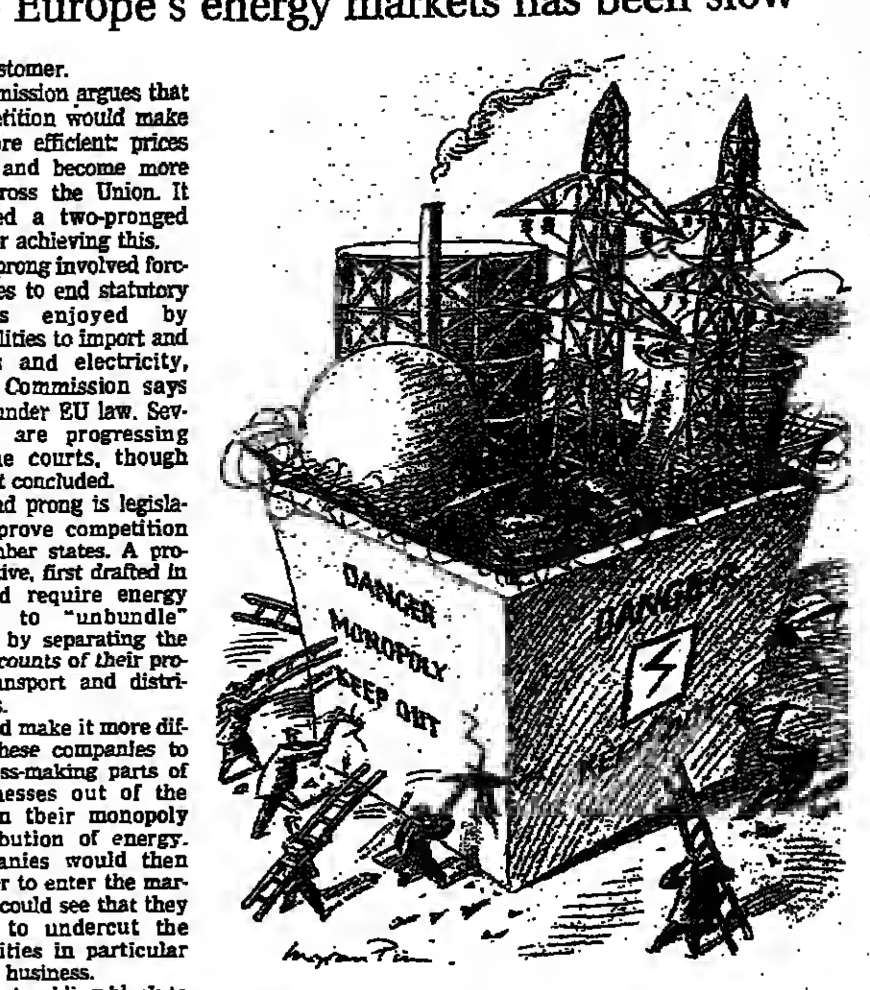
In an attempt to win agreement on third-party access, the Commission has agreed the idea of a "negotiated", rather than automatic, right to access to power networks. This would allow host companies to refuse access on the grounds that security of supply could be threatened, with an arbitration system for disputes – a compromise that most of those in favour of liberalisation would consider accepting.

However, opponents to reform think even "negotiated third-party access" goes too far. Some, including the French, want to introduce a concept of a "single buyer" as an alternative to third-party access. Under this arrangement, deals between electricity users and foreign suppliers would have to be reached through the host country's transmission system operator, which would be the sole purchaser of electricity supplies within that country.

Reformers, already concerned about the concession on "negotiated" third-party access, believe the single buyer concept would lead to little change. "If too much is conceded, the introduction of competition could be logjammed for a decade," says Mr John Baker, chief executive of the UK's National Power generation company: "It may be preferable to wait three or four years, since a delay might enable them to get the important principles through."

Free-marketeers like Mr Baker believe that liberalisation is inevitable. Increasingly, countries such as Italy, Spain and the Netherlands are starting to deregulate their energy industries. In Germany, once a strong opponent of change, supporters of third-party access include Mr Günter Rexrodt, economics minister.

In addition, the Nordic countries that will join the EU next year are likely to support liberalisation, since they have already deregulated their energy markets. Nonetheless, the scale of opposition means that real progress on liberalisation could take years rather than months.



LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Church not pervasive in Irish politics

From Mr Oliver O'Connor.

Sir, Your editorial, "No bad thing for Ireland" (November 21), said the political crisis in Dublin exposed some vital questions, first among them whether Ireland can claim to be a secular state while the Roman Catholic Church continues to wield a pervasive influence in political life.

You might care to read your correspondent, John Murray Brown's, reports of the crisis. Brown barely, if at all, mentions the Roman Catholic Church. The crisis was about politics and distrust between Mr Dick Spring and Mr Albert Reynolds, arising principally out of the beef tribunal report last August. Mr Spring's unexplained reservations about the former attorney general, promoted and then denounced by Mr Reynolds, had probably as much to do with the attorney's role in protecting Mr Reynolds in the course of that inquiry as with the style of the attorney's catholicism.

The delay in the processing of the extradition warrant was the fuse, not the explosive, in Ireland's political explosion. The politics would have been the same, no matter what the profession of the child abuser. Despite the spreading of misleading rumours, no evidence of church interference in due process was found. It doesn't amount to pervasive influence in political life. Besides, Irish voters have long since reconciled church attendance with independent action as citizens. Few people, especially politicians, pay much attention to what bishops say about political questions, in Ireland as in England.

Oliver O'Connor,
48 Stonepark Abbey,
Rathfarnham,
Dublin 14, Ireland

Flaw in schools' league

From Mr Sean Lawless.

Sir, I feel your A-level league tables ("Schools' league tables", November 22) have a flaw: the Universities and Colleges Admissions Service points score should be calculated on the top three A-level results gained by the candidate, not the total for several exams, thus giving a maximum score of 30 points. By counting A-levels above the three results required for university entrance, your tables become overshadowed by sixth forms that encourage their highest achieving pupils to take five or more A-levels, for the purpose of improving the school, and not the pupil's results.

A pupil with three "A"s is clearly able to deal with A-level exams extremely well, while a pupil gaining a string of five "C"s shows less sign of understanding his subjects, and should not be counted as having achieved as much. This is the line taken by university admission tutors.

Sean Lawless,
King's College,
Cambridge CB2 1ST

Synchronise Eurostar as well

From Michael Henderson-Begg.

Sir, I am surprised that in his article on European time (Personal View, November 24), Sir Alastair Morton did not also suggest that, if the UK's clocks were synchronised with the Continent and if the first Eurostar trains of the day were to leave Waterloo Station between 0600 and 0700, instead of at 0823 as at present, then British executives would also be able to fulfil a full day's engagements in either Paris or Brussels without the added expense and inconvenience of flying to those destinations the night before.

Michael Henderson-Begg,
Bartholomew House,
66 Westbury Road,
New Malden,
Surrey KT3 5AS

Deutsche Bank does not need any lessons

From Mr N J F B Samengo-Turner.

Sir, Your coverage of the news that Deutsche Bank is to move its non-D-Mark investment banking operation to London, and further integrate Morgan Grenfell, seemed to smack of a little football-terrace xenophobia and jingoism (Survey of Germany, November 21). As an independent observer unconnected with either house, the message I received from the FT was of a British victory of a sophisticated investment bank showing the way to a vast banking Euro-bureaucrat.

When it comes down to who is benefiting from whose investment banking expertise, I feel that you have got it the wrong way round – unless you believe that a small domestically-focused mergers and acquisitions bank which made a hash of its equity securities operation can teach a great deal about non-M&A investment banking to a parent that has topped Eurobond league tables, has figured heavily in international equity issues, and runs a thriving range of capital markets operations (including gilts and derivatives).

Your articles informed me on at least two occasions that investment banking is an "Anglo-Saxon culture" business, whatever that ghastly Americanism may mean. I am no geographer, but I would imagine that such great names as Warburg, Lehman, Samuel, Schroder, Salomon, Rothschild, Goldman, Hambro and Kleinwort have at least part of their roots rather closer to Frankfurt than London. Put another way, maybe the Saxons will triumph over the Anglos, as Germany's pre-eminent position in industrial Europe is mirrored in the world of investment banking.

N J F B Samengo-Turner,
Coltsfoot Cottage,
Wickhambrook,
Newmarket, Suffolk CB8 8UW

Airport proposals lack support of UK airline industry

From Mr D R Hopkins.

Sir, The call by the free-market Adam Smith Institute for the development of Northolt and Redhill aerodromes to relieve pressure on Heathrow and Gatwick ("Plea for two more London airfields", November 21) is not supported by the UK's airline industry.

The fundamental flaw in the Northolt and Redhill proposals is that they will not create new peak time capacity at Heathrow and Gatwick to accommodate an extra 30m passengers per year, as the Adam Smith Institute claims. This is because business aircraft currently only use those take-off and landing slots at Heathrow and Gatwick that cannot be used by airlines because they fall at the wrong time of day for scheduling purposes.

Although Northolt is close to Heathrow, surface links and, in poor traffic conditions, the road connection along the A40, M40 and M25 are too unreliable. The Heathrow Express will not pass near Northolt. The attractiveness of Northolt to interline and feeder traffic is therefore very low. Furthermore, Northolt is used for ministerial flights and will soon be the base for the Queen's Flight. Commercial schedules cannot be interrupted by these categories.

The current Redhill proposal is too small in scale and has too short a runway to provide a genuine relief for Gatwick. No leading airline supported the proposal at the recent planning enquiry.

While we have no objection to the creation of a dedicated business aircraft facility at Northolt, airlines believe that new capacity must be provided where it will expand and complement existing facilities along the Heathrow-Gatwick axis.

We hope the secretary of state for transport will initiate the process of ensuring that London's two main airports will avoid gridlock and that business and leisure passengers will retain the ability to gain access to airports of their choice.

D R Hopkins,
chairman,
British Air Transport Association,
5/6 Pall Mall East,
London SW1Y 5BA

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700

Monday November 28 1994

Halifax and after

Lloyds Bank's approach to Cheltenham & Gloucester Building Society earlier this year was widely recognised as the start of something big. Yet few foresaw that it would be the catalyst for an upheaval in the building society movement on the scale that now seems possible in the light of the proposed merger bstween the Halifax and Leeds Permanent building societies.

If the plans for marriage and subsequent conversion into a public listed company meet with the requisite approvals, nearly a third of ths building society movement's £280bn assets will disappear overnight. The psychological shock to the rest of the movement will be traumatic.

There is, of course, nothing completely new in finance. The original merger between the Halifax Permanent and the Halifax Equitable in 1928, from which the present Halifax was formed, will remain the biggest historic building society merger to relation to the size of the industry until the present (or some other comparable) merger is consummated.

The difference here lies in the change in status, since the Halifax and the Leeds are proposing to follow Abbey National's route to the stock market. No building society can henceforth dodge the question of whether mutual ownership continues to serve a worthwhile purpose.

The case for a wholly separate regulatory regime for a shrinking number of societies that are banks in all but name will also require radical rethinking in ths Treasury. The wider issue is whether a retreat from mutuality is a matter for regret.

Regulatory constraints

A high level of home ownership, which was the chief social purpose of the societies' mutual ownership, has already been achieved. Meanwhile, mutuality within the framework of the 1986 Building Society Act imposes regulatory constraints on building societies' attempts to become fully-fledged financial services groups. By its very definition such a restricted form of ownership implies lack of access to large-scale capital and an inability to make acquisitions for paper.

Nor does mntuality provide the best means for dealing with the legacy of the past. Tha high streets are overstocked with building society branches – e consequence of non-price competition in the days of the old building society cartel. These outlets deliver s proliferation of products that look increasingly similar. That points ultimately to declining profitability and the need for fewer branches. Ths experience of building society mergers so far is that mutuality does little to promote such rationalisation. Accountability to shareholders seems more likely to deliver on this score.

Competition policy

That is one reason to feel relatively unconcerned about the competition policy aspects of the Halifax-Leeds proposal. The two societies' joint 20 per cent share of outstanding mortgage advances may sound high. Yet no other large developed country has as many nationwide retail banks operating in such a competitive environment; and the commitment of the Halifax and Leeds to cutting branch costs hardly points to upward pressure on prices.

For all that, mutuality still imposes discipline in the use of capital. The Halifax and Leeds, admittedly, are conscious of the way money burned a hols in the TSB Group's pocket after its flotation and have no wish to raise much new capital. Yet the recent history of the clearing banks contains notorious instances of rights issues being squandered – e longer term hazard.

The case for such discipline is unlikely to carry weight with incumbent building society management. And in the absence of real accountability, a further contraction to the number of building societies will be driven more by the survival instincts of management than anything else.

That implies, after Lloyds' initiative with Cheltenham & Gloucester, there may well be attempts to pre-empt unwelcome takeover approaches by making a comfortable choice of partner under the accommodating regime of mutuality. It also suggests that the managers of larger building societies may seek to emulate the directors of privatised utilities to acquiring lucrative share options via stock market listings. Either way, the game has changed forever.

Discomfort in Europe's south

In the hearts of Europe's policymakers, hope springs eternal. Faster-than-expected recovery from recession has revived the idea that a group of countries centred on Germany could attain economic and monetary union as early as 1997. Yst there is an unfortunate corollary to the improved prospects for the European "core". Economic divergences in the continent's periphery, particularly the EU's southern members, are increasing at a disconcerting pace.

Action to cope with the south's economic challenges has been half-hearted or curbed by political difficulties, or both. This is underlined by developments as diverse as the problems dogging Italy's 1995 budget plans, Spain's rejection of advice on structural reform from the International Monetary Fund, and the delay to Greece's privatisation programme.

These are matters of concern for the whole EU. A growing gap in economic performance between north and south would greatly strain the EU's cohesion. It would further impair the EU's ability to help resolve the troubles on its Mediterranean fringes, increasing the chances that north African instability could spill over to Europe. In addition, by undermining necessary efforts to restructure budgetary and farm support arrangements, a widening north-south gap would upset the EU's planned enlargement to eastern and central Europe.

Economic shortcomings

The shift in Europe's centre of gravity after the fall of the Berlin Wall has helped to expose the south's economic shortcomings. Corporations seeking eites for investment regard southern Europe with more scepticism than a few years ago. In the five years before 1989, annual average growth in Italy, Spain, Portugal and Greece was 3.5 per cent, 0.3 percentage points above the EU average. Between 1990 and 1994, growth in these countries has fallen to 1.2 per cent, 0.4 points below the European average.

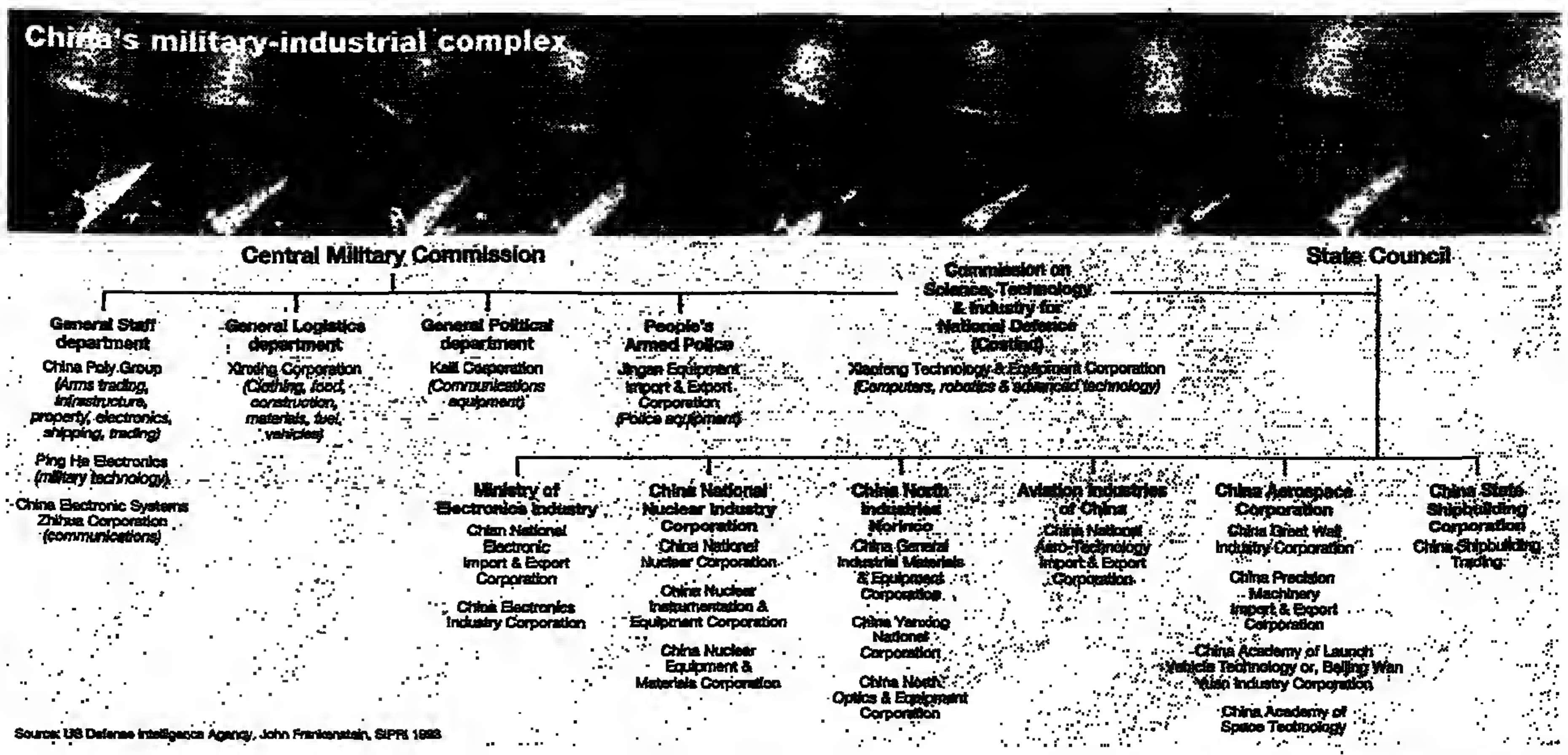
Greece has been a chronic undar-performar for the last decade, but below-average growth in Spain, Portugal and Italy is much more recent. Efforts to reduce inflation differentials have been only partly successful, and prices in all four countries (particularly in Greece) are still rising at beyond the EU's 3 per cent average. While monetary policy has remained anti-inflationary, fiscal performances have become increasingly wayward. According to the Commission's latest forecasts, the four southern states are the sole EU members where government borrowing will exceed 5 per cent of gross domestic product in 1995.

Rising indebtedness

Budgetary imbalances have accentuated government dsbt build-up, especially in Greece and Italy, where indebtedness is more than 120 per cent of gross domestic product. Excessive public sector indebtedness is not limited to the south, as shown by the examples of Belgium or Sweden. During ths next two years, however, according to the Commission's forecasts, debt as a proportion of GDP in the four southern states will continue to grow, whereas it will be falling slightly for most other EU members. Even for Spain and Portugal, the likelihood thet debt can approach the Maastricht target of 60 per cent of GDP by the end of the decade is increasingly remote.

Deteriorating fiscal positions in the south have disturbed capital markets. Yislds on southern Europe's bond markets have risen by about 3 percentage points since January, roughly twice the rise for D-Mark bonds, weighing heavily on the south'e recovery potential. The risk is that large budget deficits and high interest rates will be self-feeding impediments to growth and employment.

In these circumstances, governments seeking a return to sustained growth are walking e tightrope. The eonth's etructural weaknesses cannot be overcome without painful measures, particularly in reforming labour markets and welfare systems. The implemention of such corrective action leads to political difficulties, further lowering investor confidence. Yet without such restructuring, the task of adjustmant will becoma still more difficult. If growth migrates permanently from the south, the EU is unlikely to be robust enough to enlarge itself to the east.



Source: US Defense Intelligence Agency, John Frankenstein, SIPRI 1993

Simon Holberton and Tony Walker examine the increasingly powerful commercial role of China's armed services

The generals' big business offensive

On the west coast of Hainan, the large Chinese island next to to Vietnam, a mini-Hong Kong is taking shape. In 30 sq km, two privete companies are building container docks, warehouses, offices, flats and hotels for a HK$18bn free port development.

One of the companies, Kumagai Gumi, is an associate of the Japanese construction company of the same name and wsll known among international investors. The other, China Poly Group, is relatively unknown, but is on the way to becoming one of China's biggest conglomerates.

Headquartered in Beijing, China Poly is led by a major-general of the People's Liberation Army (PLA) and 'owned' by the PLA General Staff. It is perhaps the most aggressive investor, at boms and abroad, among increasingly assertive business groups controlled by China's sprawling military-industrial complex.

This thickening web of manufacturers, and investment and trading companies, falls into two categories: one headed by businesses such as Poly Group and under direct PLA control; the other involving defence industries turned to civilian production under the control of China's State Council, or cabinet.

They are prime examples of what Mr John Frankenstein, senior lecturer at the University of Hong Kong's business school and an expert on China's military business, calls "Chinese bureaucratic entrepreneurialism" – the involvement by government officials, including increasingly the military, in free-wheeling business ventures.

This phenomenon has left members of China's military-industrial complex poised to play a greater role not only at home, but internationally. A role-model which China's military businesses may try to emulate is that of the China International Trust and Investment Corporation (Citic), one of the country's first experiments in western-style corporate capitalism. Citic's Hong Kong subsidiary, Citic Pacific, now vies with the likes of Jardine Matheson and the Swire group for the title of Hong Kong's leading business cooglomerate. Citic Pacific's parent in Beijing owns international assets from aluminium smelting in Australia to steel and pulp paper operations in north America.

Trading houses such as Poly Group and the Xinxing Group, which is owned by the PLA's General Logistics Department, may come in time to rival big Japanese trading companies. Indeed, China's new conglomerates already resemble Japanese trading houses in one important respect: after the second world war the Jspanese companies numbered many former military officers among their staff and were run along military lines.

The military'a involvement in business is one of the most striking by-products of 15 years of economic reform. This transformation started in 1978, the year China began opening to the world. Since then sectors such as electronics and shipbuilding have forged ahead. According to Mr Wu Zhao, chairman of the Association for the Peaceful Use of Military Industrial Technology, formed in 1987 to spur defence conversion, some 76 per cent of production on average in defence factories is now for civilian use.

The decision to beat swords into ploughshares among China's estimated 600-700 defence factories has made China's former arms industries dominant in some consumer products areas such as motor-cycles, washing machines and electric fans. The six main defence industries – nuclear, epace, aviation, ordinance, electronics and shipbuilding – account for 20 per cent of China's machine industry ontput, by value.

At the same time, general purpose trading, manufacturing and investment companies have mushroomed under the umbrella of the Central Military Commission (CMC) – the apex organisation of the PLA and fount of political power and patronage.

Experts in Hong Kong on the Chinese military have no doubt that the emergence of companies such as Poly Group and Xinxing Corporation is only the beginning. "I think they will develop into small kingdoms, given their autonomy and independence from other PLA authorities," says Mr K P Ng, a research director at the Hong Kong Chinese University.

Military industries under the State Council have also made a surprisingly quick transformation from secretive offshoots of the old military-industrial complex to serious corporate players. Among the more successful are organisations such as China Electronics Industry Corporation (Chinatron), China Shipbuilding Trading company (CSTC), China North Industries Corporation (Norinco), China Great Wall Industry Corporation (GWIC), which is involved in building satellite launch vehicles, and China National Aero-Technology Import-Export Corporation (CATIC).

Apart from Poly Group, the most active among companies under the direct control of the PLA are Huitong, a general purpose trading and investment company; Xinxing, and its sister corporation Sanjiu, or the 999 Group, which produce pharmaceuticals among many other activities; and Jingan, which is owned by the People'e Armed Police and produces security equipment.

Adding immeasurably to the weight of these corporations-in-the-making is the leading role in their management of the so-called "princelings" – sons and daughters of China's political elite. Well-connected Chinese are deeply involved in some of the most prominent companies which include:

The military's involvement in business is one of the most striking by-products of economic reform

● China Poly Group, founded in 1984 to compete with Norinco in external arms sales, partly out of envy over the profits being made by Norinco. The company's name in Chinese, *Baoli*, means to "keep the profits".

The president of China Poly is major-general He Ping, director of the Equipment Department of the PLA General Staff which is responsible for overseeing PLA businesses and liaison with the Commission for Science, Technology and Industry for National Defence (COSTIND) – the lyncbpin body in China's efforts to modernise its military hardware by applying high technology. Perhaps more important, *Major-Gen He is also the son-in-law* of Deng Xiaoping, China'e senior leader, and his wife, Deng Rong, is Deng's "favourite" daughter and the author of last year's top-selling biography of the Chinese leader.

Other top figures associated with China Poly include Mr Wang Jun, son of the late Wang Zhen, e former Long March veteran and Deng associate. In addition to his duties as chairman of China Poly, Mr Wang jr is also president of Citic.

The range of China Poly's businesses is vast. In addition to the Hainan port development its ectivities include shipping, finance, property, electronics and telecommunications. It also control two companies listed on the Hong Kong stock exchange Poly Investments and Continental Mariner, a shipping company.

● Norinco has achieved the highest profile among new defence entities with some 157 factories under its control in a network that extends across China but whose stronghold is to the heavily-industrialised north-east. Norinco grew ont of the Fifth Ministry of Machine-Building industry, e secretive organisation responsihle for China's conventional weapons manufacture.

Norinco is involved in a broad range of activities, including arms sales, trading, construction, real estate, finance and car manufacturing. A sign of its clout is that it is one of few Chinese organisations authorised to raise capital abroad. Last month it raised $185m for its China North Industry Investment trust, listed in Dublin and Singapore.

● Xinxing Corporation has spread its tentacles across China with a branch at virtually every leading logistics depot. Among Xinxing's main businesses is pharmaceuticals through Sanjiu which has plants in southern China. Xinxing has also established offices abroad, including one in Hong Kong.

Hong Kong has become increasingly important as e venue for an evolving relationship between representatives of the PLA and defence *industry businesses* and powerful overseas Chinese entrepreneurs. This relationship is likely to prove mutually beneficial to the broader ambitions of companies such as China Poly and Xinxing, no less than it will to the designs on the mainland of Chinese billionaires such as Mr Li Ka-shing. The partnership is increasingly likely to take the form of joint ventures to areas such as property and possibly infrastructure davslopment in China.

When Xinxing opened its Hong Kong office with great fanfare in December 1992 on hand to greet Lt Gen Zhang Bin, deputy director of the General Logistics Department, were a clutch of Hong Kong tycoons, inclnding Mr Li, and Mr T T Tsui, the Hong Kong and London bus operator with long-standing PLA connections.

Whils China's military leaders have looked askance on ths money-making of sections of the PLA, involvement in business now seems so deeply embedded that it would be impossible to imagine the military withdrawing from its lucrative sideline activities. There is also a practical reason for this involvement in business.

China's nominal defence bndget for this year stands at Yn52bn, but this vastly understates the cost of maintaining the Chinese military. Western military experts believe the actual cost is two or even three times this amount. Additional funding from business has thus become critical to maintaining a functioning military at a time when defence has been the poor relation among China's "four modernisations".

However, the PLA *high command* has become concerned that it may lose control over these business empires and worried about the widespread perception that many of those engaged in business have profited personally.

In 1992 the CMC set up an audit commission in an attempt to restrain some of the excesses. The CMC has also sought to prevent the continued proliferation of PLA enterprise by consolidating its management at group army level. China has some 24 group armies, each of which commands abont 50,000 troops.

Worries about the "commercialisation" of tbe PLA have been expressed by no lesser figures than generals Lin Huaqing and Zhang Zhen, vice chairmen of the CMC. The two Long Marcb veterans warned last year that "all sorts of unhealthy attitudes and negative phenomena" were endangering the development of e professional military. Their warnings have come too late, however, to prevent soldiers' business or *bingshan* becoming big business.

OBSERVER

Hold the presses

■ Poland's bankers are not looking forward to New Year's Day. After the festivities of the night before, they will have to be at their desks busily lopping noughts off bank balances.

It is all part of a campaign to restore the value of the Polish currency. It was planned some time ago but has taken longer than expected to implement. The NBP, the central bank, says thet it has been waiting for inflation to come down before giving the go-ahead. However, there may be other reasons.

Originally the central bank had ordered its new bank notes – depicting Polish towns – from a German printer. They were ready in 1992 but have not been issued because the anti-forgery devices are out of date. That'e the official story anywey and the central bank has been at pains to deny what some newspaper reports suggest is the real reason – not only was some of the paper for the print run stolen, but a bundle or two of notes fell off the back of the aircraft coming in to land in Poland.

Whatever the motive the NBP shelved the Polisb towns and went to Thomas De La Rue for a new set costing "a few hundred billion zlotys" according to Hanna Gronkiewicz Waltz, the bank's head. These ootes depict a trio of medieval monarchs who are supposed to symbolise the hope that this year's 28 per cent inflatioo will have fallen to 17 per cent next year and 9 per cent in 1997.

Making up

■ All rether odd. Sir Donald Gosling, founder and major shareholder of Nstional Car Parks and the venture capitalists who had planned to buy his company, are off to lunch at the Savoy on Friday to celebrate the collapse of their £650m deal.

The occasion is the Saints and Sinners charity lunch. Is this a sly dig at venture capitalist Prudential Venture Managers following its unwillingness to put up the last £50m? Alternatively, maybe it is a belated recognition by Gosling that NCP'e second largest institutional shareholder is probably worth keeping happy. interesting to see who picks up the champagne bill.

Legend has it

■ Anyone wbo knows anything about Greek mythology will find Bill Roooey's choice of come-back vehicle a trifle bizarre. Little more than a year after he was forced off the board of Spring Ram by institutional investors upset by three profit warnings in eight months, Rooney has taken control of Atreus, s bathroom goods supplier. According to Greek legend the House of Atreus was cursed and the story of his family "is virtually unrivalled in antiquity for complexity and corruption", according to the Encyclopedia Britannia.

At one point Atreus serves Thyestes, his alder brother, the flesh of Thyestes' own son, whom Atreus had earlier slain. Welcome back Bill.

Conversion

■ The things they teach you at Harvard Business School. Greg Dyke, the former chief executive of London Weekend TV, would probably not have been guest of honour at last Saturday's annual dinner of Labour's Fabian Society had ha not been on a crash course in management at Harvard to the mid-1980s.

Dyke, the man who made Roland Rat a household name when he was helping salvage TV-am from union excesses, told the Fabians that he had Harvard to thank for rekindling his interest in their cause. Expecting to learn about the virtues of American capitalism, instead he was bombarded with talk about the need for private companies and employers to grow more ethically responsible. Suitably impressed, Dyke switched off thoughts of Mrs Thatcher, and tuned in to Labour's message.

If only getting the Labour party elected was as easy.

On hold

■ Thank goodness. The UK economy's day of reckoning has now been postponed.

Bill Martin, chief economist of brokers UBS, who has long been one of the gloomiest City Cassandras about the state of the UK economy, has had second thoughts.

After months of predicting that the UK economy would melt down next year, Martin's team has now officially announced it was wrong. "Our official forecast was premature," admits Martin in a UBS circular. He now predicts that 1995, like 1994, will "represent the economy's best inflation and growth performance for 30 years".

However, don't get carried away by this upbeat assessment. Martin has not conceded defeat yet. If strong growth continues, the economy will still overheat, he predicts – but the shock will now come in 1997, instead of next year.

If he gets that one wrong then Martin may have to consider following the example of Goldman Sachs' chief US economist Bob Giordano, and spend more time with his family.

Light at the end

■ At last a seating plan for the London Underground. Rupert Saunders, an enterprising cove who runs the Clever Map Company, has published e £2.50 pocket guide which tells where to sit on the London underground for the speediest connection on leaving the tube.

Passengers taking the Piccadilly line at Knightsbridge for Kings Cross, for example, should board, the fourth carriage from the front. Beyond Kings Cross, the tip is to sit in the last carriage.

"If someone saves 10 minutes e day by using the *Tube Hopper* map, it is the equivalent of an extra week'e holiday a year, " enthuses Saunders.

Observer would still prefer to know which carriage to sit in to avoid being mugged.

FINANCIAL TIMES
Monday November 28 1994

Ukrainians see first buds of privatisation

Chrystia Freeland and **Matthew Kaminski** on the frustrated enthusiasm of some would-be capitalists

For two years Mr Serhii Oksanich was a capitalist in waiting. He and a group of friends established Kinto, a Kiev-based investment and securities fund, in the spring of 1992. But for the first two years there were no securities for them to trade. "Our main activity for the past two years has been waiting for privatisation," Mr Oksanich said.

The failure of Ukraine's first post-independence government to launch serious economic reforms, including a mass privatisation programme, meant months of frustration and false starts for Kinto and the othar 400 registered security traders in Ukraine.

During the past few months, however, things have began to change. Over the summer, 150 large and medium-sized enterprises were privatised using certificates granted, under a system of daunting complexity, to each Ukrainian. In a series of closed tender bids to be completed by the end of this month, a further 300 factories have gone on the block this autumn.

Nonetheless, Ukraine's nascent privatisation is one of eastern Europe's hest-kept secrets. In contrast with neighbouring Russia or the Czech republic, where committed governments launched carefully structured, highly publicised mass privatisation programmes, in Ukraine the sell-off of large state factories is happening not with a bang hut with a whimper.

The privatisation that has taken place so far in Ukraine has not been a product of policy at the highest levels – the sphere that western experts tend to focus on – but has been the quiet result of tenacious grassroots enthusiasm.

The government of former president Leonid Kravchuk, which formulated the current privatisation programme, was at best a lukewarm supporter of the process. As a result, the existing plan is deeply flawed – for example, Ukrainian citizens have been issued with theoretically non-tradeable privatisation bank accounts unlike the simple freely traded vouchers used in Russia. In addition, the state hureaucracy has held the process back rather than pushed it forward.

In spite of this, businessmen have displayed remarkable ingenuity in navigating a multitude of official blocks. The securities funds, for example, hava devised ways round the official intention to make the privatisation bank accounts issued to each Ukrainian non-tradeable.

The certificates must first be redeemed at banks by individual citizens in order to render them usable. But companies such as Kinto and Dikon investment fund, another avid participant in Ukraine's privatisation, have found legal loopholes that have allowed them in effect to huy up privatisation certificates and use them to acquire large blocks of shares in factories when they are privatised.

"De jure, you cannot buy and sell certificates and foreigners cannot participate in the process," Mr Oksanich says. "But de facto it is easy to get around." He estimates that about 6m privatisation certificates have already been invested in Ukraine either in worker huy-outs or hy the investment funds.

A fledgling secondary market in shares in some of these privatised companies already exists, Mr Oksanich says, and he expects about 30 companies to be freely traded by the end of the year on what he calls "our baby Nasdaq system."

Ukraine's subterranean privatisation has canght the attention of a few of the western investment banks active in eastern Europa and Russia. Several senior western bankers said they are considering satting np operations in Ukraine soon.

Western officials are optimistic that, under the new leadership of president Leonid Kuchma, who has brought a commitment to radical economic reforms to the very top of the Ukrainian government, privatisation prospects will brighten. They hope Mr Knchma will hegin an open, well-publicised privatisation programme similar to that of its neighbours in the new year.

But if privatisation in Ukraine has so far escaped the attention of many official western observers, Mr Oksanich concedes that for most Ukrainians "privatisation certificates remain largely a myth".

The UK and France are blocking a joint US-German effort to mount an international financial aid package to encourage economic reform in Ukraine.

The stand-off is creating further tensions in the trans-atlantic alliance following US criticism of the European Union's efforts to stabilise eastern Europe and former Yugoslavia. Ukraine is expected to be discussed informally at today's meeting of EU foreign ministers in Brussels, hut the decisive meeting will take place among finance ministers a week later, just before the European Council summit in Essen on December 9. Report, Page 3

Berlusconi fights leaks from corruption probe

By Robert Graham in Rome

Mr Silvio Berlusconi, the embattled Italian prime minister, this week faces interrogation by Milan magistrates ovar corruption allegations and a threatened general strike on Friday.

Mr Berlusconi was originally expected to be questioned hy Milan's anti-corruption magistrates at the weekend, but his lawyer was reported to be unwell and the appointment was postponed.

The delay has given the prime minister time to tighten the security surrounding the encounter, which is likely to take place at an undisclosed location in Milan.

Political analysts have warned that, should any compromising information emerge, it would be hard for Mr Berlusconi to reject calls for his resignation.

He was angered hy the leak last Tuesday of the fact that he was being investigated for corruption while running his Fininvest business ampire. Ha is anxious to protect the full secrecy of the interrogation and prevent the Milan judiciary allowing testimony to leak immediately to the media.

Mr Berlusconi last week insisted that he had done no wrong while running Fininvest, Italy's second-largest privata business group. He has accused the magistrates of conducting a political vendetta against him.

Meanwhile, the three main trade union confederations are standing by their call for an eight-hour stoppage on Friday to protest against pension cuts in the 1995 budget even though a compromise plan is to be discussed on Wednesday.

The compromise centres on removing structural changes in the costly state pensions system from the 1995 budget and treating them separately. The unions have hinted that this would probably be enough to avert the strike. The new proposals, which would have to include alternative spending cuts, also meet many of the ohjections to the pension reform plans made by the ruling rightwing coalition's populist Northern League, led by Mr Umberto Bossi. The league leader held a long meeting at the weekend with President Oscar Luigi Scalfaro.

It was announced afterwards that Mr Bossi had pledged to support his coalition partners until the 1995 hndget has passed through parliament.

The magistrates' move against the prime minister follows recent admissions by his younger hrother, Mr Paolo Berlusconi, and by Mr Salvatore Sciascta, the head of Fininvest's tax department, that L330bn ($204m) was paid between 1989-92 in bribes to officials of the Guardia di Finanza, the financial police, to ensure favourable inspections of company books.

THE LEX COLUMN

Milking the cash cows

The UK corporate sector is sucking in cash at a rapid rate. Industrial companies are running their largest financial surplus since the early 1980s. So far, companies have chosen to use the cash to improve their balance sheets. They paid off £3.1bn of borrowings in the first half of the year and increased their cash deposits. The desire for financial strength is fair enough, but this has been at the expense of dividend payouts and capital expenditure.

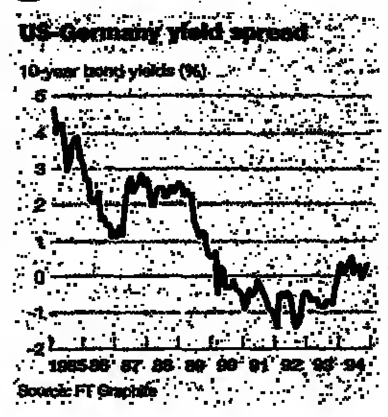
Generosity to shareholders has proved surprisingly limited; dividends fell between the second half of last year and the first half of the current year on a seasonally adjusted basis. However, investors have benefited recently from the trend towards share buy-backs – notably by Boots and the regional electricity companies – and full-year dividends are likely to be up a handsome 10 per cent.

More worrying is the stagnant capital expenditure in the third quarter. The stock market tends to be sceptical when companies announce large capital expenditure plans, as, for example, when Hanson recently declared its intention to spend $438m expanding capacity in the US. But this scepticism is wrong-headed, if investment supports long-term earnings growth. The dearth of capital expenditure probably reflects the impact of high real long-term interest rates. But with inflation low, companies should arguably adjust to less ambitious profit targets.

German bunds

There was encouraging news for the German hond market last week. Growth in October's M3 money supply worked out at an annualised rate of 6.9 per cent, suggesting the Bundesbank will come close to meeting its target of 4 to 6 per cent M3 growth for the year. Year-on-year inflation was down to 2.6 per cent in November – further progress towards the Bundesbank's 2 per cent objective.

The favourable outlook is blighted somewhat by continuing uncertainty over German fiscal policy, which cannot be cleared up until after the tight 1995 budget has been agreed later this month. The wage round for next year presents another risk. But, given the backdrop of improving inflation and money supply data, it is not absurd to suggest that the Bundesbank may cut short-term rates one last time during the current economic cycle, perhaps early next year. To some extent it does not matter whether short-term rates are cut or not; sentiment towards bunds will improve even if rates are merely left on hold throughout most of 1995. This seems more likely than the monetary tightening still anticipated by the Euromarkets.



Improving fundamentals have helped hunds over recent months; they have regained their traditional premium to comparable US issues. The outperformance is more marked for US investors because of the weakness of the dollar versus the D-Mark. This may encourage profit-taking at signs of a pronounced rally, but if last week's tentative world-wide shift from equities into bonds gathers momentum, bunds will clearly benefit.

Syndicated loans

Margins on international syndicated loans have shrunk to wafer thin levels. The Bank for International Settlements confirmed as much in its quarterly survey last week. The most credit-worthy companies can currently borrow for as little as 15 points above the London inter-bank offer rate, compared with as much as 50 points just two years ago. That is lower than the level reached during the last cycle.

The reason for the keener pricing is an imbalance in supply and demand. Banks, awash with capital following improved financial results and a decline in bad debts, have been anxious to build their loan portfolios. But the corporate sector, husy paying down debt, has not had much appetite for borrowing. Competition between banks has forced margins down. For companies, raising money through syndicated loans is doubly attractive, given the high yields they currently pay for issuing honds. However cut-throat competition is worrying. With spreads so narrow, few banks are making money. Moreover, in their efforts to win business, they have competed hy loosening covenant terms. That could store up troubla during the next economic downturn.

One might think banks would walk away from such unprofitable business. The snag is that many see syndicated loans as loss leaders, on the back of which they can sell corporations more profitable products such as derivatives. There is therefore little chance of a pick-up in margins. In fact, with Japanese banks expected to rush to make loans by the end of their financial year in March, a further squeeze is likely.

Brazil

The Brazilian stock market this year has been the world's best-performing in dollar terms, up an astonishing 80 per cent. But last week the Bovespa index plummeted nearly 10 per cent. The question is whether it was a hiccup in its progress or represented the start of a more fundamental derating.

In part, the descent was due to the general fall in international equity markets. Investors hava also been locking in profits during reassuringly thin trading. But the key to longer term growth will be the incoming government's ability to control inflation which has already fallen from a peak of 50 per cent to 3.5 per cent a month. Some commentators believe that if inflation can be successfully controlled, the economy could expand 6 per cent a year for the next decade. Private sector earnings growth could be spectacular in an economy expanding that fast.

Investors must hope the record of past Brazilian governments represents no guide to the future performance of this administration. After all, the latest economic plan is the seventh in eight years. However, this time there is consensus that a return to hyper-inflation must be avoided at all costs. All depends on the administration's ability to control the budget deficit. A positive conclusion to tha constitutional reform necessary to limit the spending power of regional government is not guaranteed, hut the chances are better than for many years. Until those reforms are agreed, probably not before June, the market will remain highly volatile. But if reform is implemented, then prospects are bright, with Brazil set to become an important constituent of international investment funds. If not, all bets are off.

Major set to win EU vote

Continned from Page 1

power to Brussels. The prime minister was said to be acutely aware of the rising tide of opinion on the back benches in favour of a referendum before Britain considered joining a single European currency. Mr Aitken, a cabinet sceptic, reinforced that impression by describing economic and monetary union as "an epic constitutional decision".

The issue is not expected to arise before the next general election, but rightwing ministers have joined Tory MPs in pressing for the referendum pledge to form a central plank of the party's election manifesto.

Senior ministers hope that today's Commons vote on legislation to allow higher British contrihutions to the EU hudget would allow the party to halt the latest bout of infighting.

Late spurt by EU Yes side

Continoed from Page 1

ship will erode Norway's independence and its control over its valuable oil and fish resources. But all polls showed significant gains for the Yes camp.

With at least 10 per cent of voters still undecided, the government and its pro-EU backers in the Conservative opposition party and the business community are banking on winning over most of those making up their minds at the last minute – as happened in Sweden.

The No side, however, is hoping its great strength in the rural and remote northern regions will he sufficient to defeat an expected majority for membership in the more populous urban areas, particularly in the Oslo area, where about a third of the 3.6m voters live.

Tensions between the two camps boiled over in televised dehates on Friday night when Mrs Brundtland accused Ms Anne Enger Lahnstein, the principal leader of the No campaign, of lying when she said EU membership might weaken trade union rights. Ms Lahnstein demanded an apology, but Mrs Brundtland was unrepentant.

Polling stations in about half the country's municipalities opened for voting yesterday, but the bulk of the electorate will cast their ballots today. The polls stay open until 9pm local time and officials warn that if the outcome is very close, the result may not be clear until early tomorrow morning.

Even if Mrs Brundtland wins, the issue may not be over. The referendum is not binding on the parliament, where anti-EU opponents led by the rural-based Centre party and the Socialist Left party, have threatened to block ratification of membership if the margin in favour in the plebiscite is narrow.

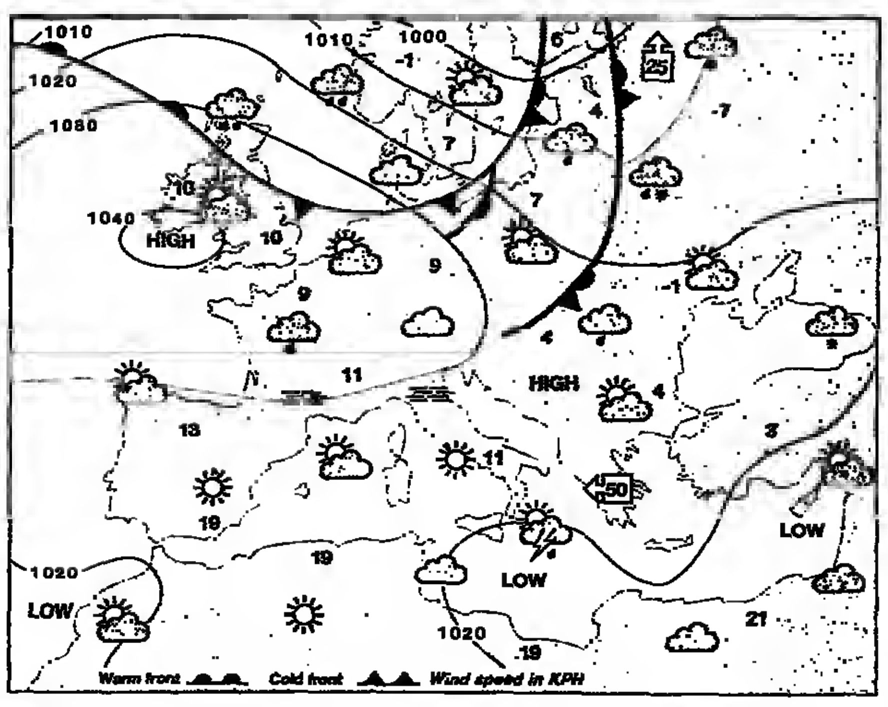
FT WEATHER GUIDE

Europe today

A powerful Atlantic front will move into Scandinavia bringing gusty winds, coastal rain and mountain snows. Inland across Scandinavia, the front will only produce some scattered rain. A weak cold front will move towards the Alps causing some rain and, above 1200 to 1800 metres, there will also be some snow. In western Russia, it will be cloudy with scattered patches of snow. Snow showers will also occur near the Black Sea. Dull and dreary conditions will prevail in western Europe, however northern Germany, the Benelux and England will hava sunny spells. In Spain and Portugal, it will be sunny. Along the Spanish coast it will be cloudy and showery. Showers will also affect southern Italy, Malta and parts of Greece.

Five-day forecast

A surge of cold, arctic air will cover eastern Europe as an active low pressure system with snow moves from Scandinavia towards central Russia. Once its fronts reach the eastern Mediterranean late in the week, Greece and southern Italy will have heavy rain. A strong high pressure system will continue to dominate from the UK to central Europe. There will be patches of cloud and locally persistent fog.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	fair	9	Caracas	shower	31	Faro	sun	18	Madrid	sun	13	Rangoon	fair	33
		Celsius	Belfast	fog	9	Cardiff	cloudy	9	Frankfurt	cloudy	8	Majorca	shower	18	Reykjavik	shower	3
Abu Dhabi	sun	30	Belgrade	fair	8	Casablanca	fair	18	Geneva	cloudy	8	Malta	thund	17	Rio	fair	31
Accra	fair	33	Berlin	fair	8	Chicago	snow	1	Gibraltar	sun	17	Manchester	fog	10	Rome	sun	17
Algiers	fair	19	Bermuda	fair	24	Cologne	fair	9	Glasgow	rain	12	Manila	cloudy	30	S. Frsco	sun	15
Amsterdam	fair	10	Bogota	cloudy	19	Dakar	sun	28	Hamburg	fair	9	Melbourne	fair	29	Seoul	fair	10
Athens	shower	11	Bombay	sun	33	Dallas	sun	17	Helsinki	sleet	3	Mexico City	fair	22	Singapore	cloudy	31
Atlanta	rain	19	Brussels	cloudy	9	Delhi	fair	29	Hong Kong	cloudy	27	Miami	thund	27	Stockholm	fair	8
B. Aires	cloudy	31	Budapest	cloudy	7	Dubai	sun	30	Honolulu	fair	30	Milan	fog	10	Strasbourg	cloudy	8
B.ham	fair	9	C.hagen	cloudy	8	Dublin	fair	10	Istanbul	cloudy	7	Montreal	snow	-3	Sydney	fair	31
Bangkok	fair	34	Cairo	cloudy	21	Dubrovnik	fair	13	Jakarta	cloudy	33	Moscow	snow	-7	Tangier	fair	16
Barcelona	cloudy	15	Cape Town	fair	24	Edinburgh	cloudy	11	Jersey	cloudy	10	Munich	drzzl	9	Tel Aviv	fair	19
									Karachi	fair	32	Nairobi	cloudy	25	Tokyo	shower	14
									Kuwait	fair	29	Naples	cloudy	15	Toronto	shower	3
									L. Angeles	sun	21	Nassau	fair	28	Vancouver	rain	5
									Las Palmas	fair	22	New York	rain	14	Venice	fair	12
									Lima	cloudy	23	Nice	fair	16	Vienna	drzzl	9
									Lisbon	sun	16	Nicosia	fair	17	Warsaw	cloudy	7
									London	fog	10	Oslo	fair	8	Washington	rain	10
									Lux.bourg	cloudy	7	Paris	drzzl	9	Wellington	shower	15
									Lyon	cloudy	8	Perth	shower	23	Winnipeg	shower	-6
									Madeira	fair	21	Prague	drzzl	9	Zurich	drzzl	7

FINANCIAL TIMES
COMPANIES & MARKETS
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MARKETS THIS WEEK

BRONWEN MADDOX:
GLOBAL INVESTOR
If you take the word of 40 leading European industrialists, the region's manufacturing companies are now at the *"point of maximum danger"* in the economic cycle. The report, prepared by the European Round Table also argues that it is an illusion to believe that economic recovery signals an end to Europe's competitiveness crisis. **Page 15**

PETER NORMAN:
ECONOMICS NOTEBOOK
European issues continue to fascinate and alarm. But while attention in the UK has been focused on today's Commons debate over contributions to the European Union budget, discussion elsewhere in Europe has shifted back to economic and monetary union. **Page 18**

BONDS:
All eyes in the UK gilts market will be on Mr Kenneth Clarke, the chancellor, as he delivers the Budget tomorrow. Most Budgets have a thema and this year's effort looks likely to to be, whether or not it is spelt out in public, a Budget for gilts. **Page 20**

EQUITIES:
New York – Investors this week will continue to wrestle with fears that the Federal Reserve may induce recession through tighter and tighter monetary policy. London – UK equities are in *desperate need of a tonic. This could come* tomorrow when Mr Kenneth Clarke delivers his second UK Budget. **Page 19**

EMERGING MARKETS:
In the largest burst of fundraising since the fall of communism five years ago, fund managers fund managers are showing growing enthusiasm for the emerging markets of eastern Europe. **Page 19**

CURRENCIES:
The political problems of UK Prime Minister, Mr *John Major, are almost certain to ensure that* sterling will be a focus of market attention this week. **Page 19**

COMMODITIES:
Members of the Association of Coffee Producing Countries are to meet in London on Friday to discuss changes in the market situation. **Page 18**

UK COMPANIES:
The proposed merger between the UK's Halifax and Leeds building societies faces several regulatory hurdles before members can vote on it next March, the most immediate of which is surrounds competition. **Page 16**

INTERNATIONAL COMPANIES:
Substantial bad loan *write-offs reduced recurring* profits at Japan's long-term credit banks and trust banks in the six months to the end of September. **Page 17**

STATISTICS

Privatisation lures cash to Russia

By Nicholas Denton and Richard Lapper

Emerging markets funds have raised $800m to take advantage of mass privatisation in Russia and its neighbours, marking a surge in interest by investors in the region.

Placings by two new regional funds and one existing one have taken to more than $1.5bn the *pool of financial investment ear*marked for eastern Europe.

Pictet, the Swiss private bank*ing group, has attracted $56m for* its First Russian Frontiers Trust, and gained the first London listing for a fund of its type.

Trading in First Russian Frontiers, sponsored by stockbrokers Cazenove, begins tomorrow in London. On Wednesday the Barings group, which has raised $180m for its First NIS Regional Fund, expects those shares to be listed in Luxembourg.

An established fund, Invesco's East Europe Development Fund, has expanded by tapping the markets for an extra $75m and trading in the new share issue began at the end of last week on *the Irish Stock Exchange.*

The proliferation of east European regional funds is the most visible sign that investor interest has withstood the rise in international interest rates. General emerging market funds, hedge funds and even pension funds have contributed to a record flow of financial investment into Russia estimated at $500m a month.

Gazprom, Russia's main gas producer, has hired Kleinwort Benson of the UK to sell a 9 per cent shareholding internationally. Such action by Russia's natural resource giants will draw in even more *financial* investment.

Many of the earlier regional funds have weighted their holdings towards the more mature east European markets of Poland, the Czech Republic and Hungary.

But Russia's mass privatisation programme has produced a huge supply of equity at valuations that fund managers describe privately as "laughably low". The market capitalisation of the Russian oil sector values a barrel of proven reserves at 10-15 cents, compared with $7 in the US.

The Pictet fund aims to invest 35 per cent in Russia and 25 per cent in the relatively unexplored Balkan duo of Romania and Bul*garia. The fund has scope to* invest in more than 20 markets including locations such as Bosnia, Serbia and Azerbaijan.

The Barings fund also targets Russia and the newly independent states of the old Soviet Union. "It is very, very risky but the value is unparalleled in terms of what you see in other emerging markets," eald Ms Nancy Curtin, head of emerging European markets at Baring Asset Management. Invesco's East Europe Development Fund, which has the best recorded performance of any fund investor over one and three years, also plans to increase the Russian weighting in its portfolio.

Emerging Markets, Page 19

After nearly four years of courtship, Deutsche Telekom rings Goldman Sachs' bell

Investment banks take stock after telecoms battle

By Andrew Fisher, Richard Lapper and Nicholas Denton

For executives of the world's top investment banks, last weekend must have been one of the most relaxing for some time.

Those not celebrating their success, after Friday's announcement from the German government of which banks would play leading roles in the Deutsche Telekom share issue, could at least enjoy an end to months of tension.

When Goldman Sachs was named as the foreign bank in the global consortium for the equity sale – which at some DM15bn ($9.6bn) is the biggest ever in Germany and one of the world's largest – it was finally confirmed that the US bank's assidnous courtship of the German telecommunications concern and its chairman Helmut Ricke, had paid off.

The global consortium takes responsibility for the co-ordination of demand and placement in consultation with regional lead-managers. Along with Deutsche Telekom and the German government it will also decide on allocation of shares between the domestic German market and the four other regions.

The international group acts as intermediary between regional leaders and the company.

The choice of a US bank was virtually certain. Deutsche Telekom's decision to seek a US listing to tap as many American institutional and private investors as possible meant a US bank would inevitably have a head start, joining Deutsche Bank and Dresdner Bank at the top of the global consortium.

Although the decision was taken last Monday at a meeting with Chancellor Helmut Kohl, who was alert to the political implications of the choice of lead banks, it was kept quiet at first. This was to give the government time to work out final details and avoid the news clashing with the presentation of the newly re-elected government's legislative programme.

Keeping banks and the media on tenterhooks was "a deliberate diversionary tactic", said one government official. Even Deutsche Bank only knew of the definite choice of Goldman Sachs on Thursday night. Deutsche, too, received a boost on Friday with its appointment as spokesman for the global consortium, also responsible for the overall book-building process in which investor interest is assessed before the share price is fixed. This was seen as a political attempt to help Deutsche, Germany's biggest bank, after its image problems over the Metallgesellschaft and the Schneider property debacles.

Dresdner Bank had earlier looked like taking the top German prize after its success with the recent Lufthansa privatisation. In the event, it shares the leadership of the German sub-consortium – likely to account for more than half the share sales – with Deutsche, while the latter is a joint manager (with Merrill and Goldman) in the American placing, and co-leader for the UK tranche (headed by Warburg) and for Asia (led by Daiwa). France's Paribas heads the consortium for the rest of Europe, with Dresdner as co-manager.

The whole issuing structure is finely balanced and designed to put the top banks in geographical areas at the head of the regional consortia.

From the start, Goldman always looked most likely to fare best in this overall share-out. It had courted the German company for nearly four years, having first called on its executives in February 1991, well before the Bonn government announced plans to raise capital for the state-owned company through the international markets.

Other leading investment banks also spent years cultivating Deutsche Telekom. One US investment banker eaid: "Anybody who hadn't been all over this should be fired. If somebody rolled up a year ago without investing time I think they were a little optimistic."

But Goldman Sachs was particularly determined. Mr Scott Mead, a managing director of the communications and technology group within the investment banking division, and one of a core team of six executives involved in the deal, said it was a "a top priority for a large number of our senior management" – a formidable claim for a bank known for its relentless pursuit of business.

In its initial contacts, Goldman Sachs explained its views about the global telecommunications industry which it believes was poised to expand rapidly.

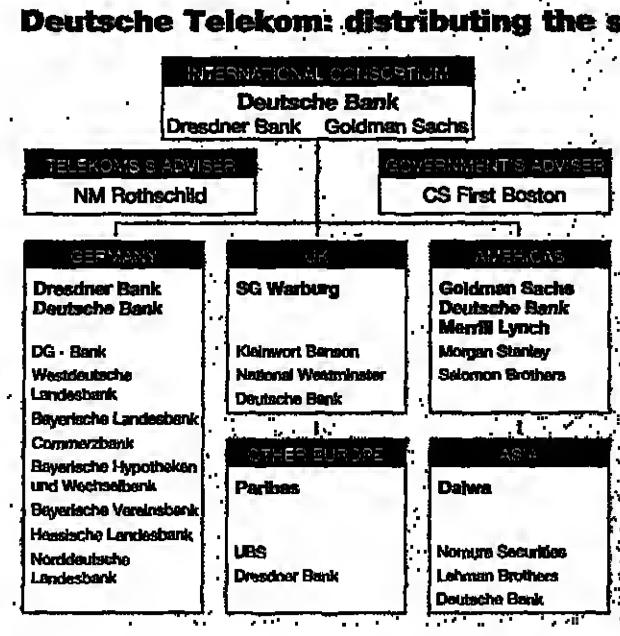
"There was nothing tangible at the time, but we were firmly convinced that a commercial and corporate structure was the best way forward for telecommunications companies," explained Mr Robert Morris, a managing director of Goldman's global equities research. "Whether it was 1991 or 1995, our belief was that you would have privatisation throughout Europe and the rest of the world. In a sense we thought it was inevitable."

Early in 1992, Goldman held a series of meetings with the group in connection with roadshows designed to introduce German government bodies to the international capital markets. "This was an unofficial exercise designed to help them know what they would confront when privatisation came," said Mr Mead. "We organised the meetings to help explain the equity story."

In spring 1993, Goldman worked with the international arm of Deutsche Telekom on its bid for a stake in Matav, the Hungarian telecommunications concern. Deutsche Telekom eventually bought a 30 per cent stake in Matav for $875m.

Continued on Page 17

Deutsche Telekom: distributing the spoils



Helmut Ricke
Chairman, Deutsche Telekom

Singer to pay £45m for control of Carnegie

By Peter John in London and Christopher Brown-Humes in Stockholm

Singer & Friedlander, the merchant banking group, is to buy a controlling stake in Carnegie, the international broking house, from Nordbanken of Sweden.

The group, which owns the UK broking house Collins Stewart, is expected to announce the details – possibly as early as tomorrow – in conjunction with a convertible share issue to raise the necessary cash.

It is thought to be paying around £45m ($73m) for a 55 per cent stake in the company. It will take the equity business while Nordbanken will retain the Swedish bond and money broking arm.

The purchase and fund-raising are likely to be carried out by Barclays de Zoete Wedd, Singer's broker. The company was not prepared to comment yesterday but a market source said: "The financing is still being decided but the deal is imminent."

Singer has a diversified growth approach, acquiring sizeable stakes in Associated Nursing Services, Edgar Hamilton – the Lloyd's of London broker – and People's Phone, an independent provider of mobile phone services.

It also has a large property portfolio which contributed almost 20 per cent to interim profits in September.

It has a significant cash pile and is one of the best capitalised merchant banks in the UK according to banking analysts. While it could afford to raise the extra money for the purchase without tapping shareholders, it is believed to be keeping cash for other ventures. For example increasing its 22 per cent stake in People's Phone.

Nordbanken, said yesterday: "We have been seeking a buyer for over a year. We are concentrating on offering standardised products to private individuals and small and medium-sized companies while Carnegie specialises in medium and large companies and wealthy individuals."

Nordbanken, the worst casualty of Sweden's 1992 banking crisis, was bailed out by the government two years ago and is now set for privatisation after reporting healthy interim profits in August. Earlier this year, it had been in talks about selling Carnegie to Westdeutsche Landesbank Girozentrale.

This week: Company news

BAYER/HOECHST

Chemical giants bullish about future growth

After BASF set the tone last week with news of a three-fold increase in third-quarter profits, *offset by a* warning that the squeeze on costs will continue, much the same is expected from Bayer and Hoechst's *nine-month* results, due this week.

Bayer, expected to publish today, has been *bullish on prospects for* most of the year, and although improvements on the BASF scale are not to be expected, *analysts point out* that the Leverkusen group avoided crashing quite so dramatically in the recession as its *compatriot* competitors.

Pre-tax earnings for the third quarter may increase by a third or more, *according to* most estimates, thanks mainly to health care and strong foreign operations, Bayer's trusty buffers *against* cyclical crunches.

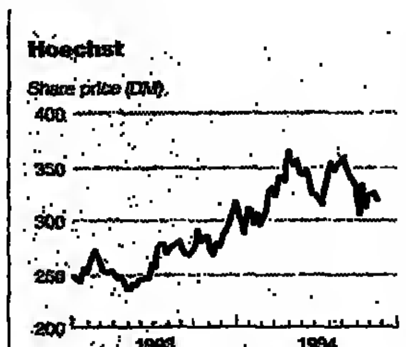
Like BASF, Hoechst is expected to report continued pressure on margins from severe price competition. Although no details are expected, volume growth in traditional chemicals operations in Germany has far exceeded reported increases in sales.

At the same time, pre-tax profits will certainly rebound vigorously in comparison with the dismal DM148m ($95.90m) reported in the third quarter of last year. Analysts agree that the invigorating decentralisation introduced by the new management will eventually pay off handsomely.

Especially promising are ventures such as the proposed merger of textile dyes operations with those of Bayer in a DM2bn-sales joint venture company. The plant protection group, AgrEvo – formed from Hoechst and Schering's business last year – is a big hit. Operating earnings are reportedly already equivalent to 8 per cent of sales.

According to Mr Jürgen Dormann, chairman, the net result will be a doubling of the Hoechst share price by the end of the decade.

Hoechst



Source: FT Graphite

HANSON

Quantum leap well timed for year end

Hanson's full year figures on Thursday are expected to show a modest increase in pre-tax profits to around £1bn ($1.64bn), before disposal gains of more than £300m. Underlying earnings per share are forecast to show little change at 14p.

Strong growth at the operating level will have continued in the fourth quarter with trading profits rising by almost a third in the year. But the impact will have been largely offset by a £250m swing in the interest bill.

This stems from the increase in US debt following the £2.1bn acquisition of Quantum Chemical at the start of the year combined with lower income on Hanson's sterling deposits.

The figures should confirm that the Quantum deal was very well timed. Quantum made little more than £35m before interest and tax in the year to September 1993. But ethylene and polyethylene prices have since risen strongly, and analysts believe Quantum could have made almost £180m last year. After interest its contribution will have been around £'00m.

Profits from Hanson's other cyclical business, particula: ·· construction related, have also picked up strongly and US coal profits have recovered following the long strike at Peabody.

Hanson has already signalled that it will pay a fourth quarterly dividend of 3p, making a total for the year to 11.7p, a rise of 2.6 per cent.

OTHER COMPANIES

Restructuring charge dampens party spirit

Another hefty restructuring charge will depress pre-tax profits at Grand Metropolitan, the drinks and foods *group*, by £280m to *around £650m* ($1.07bn) for the year ended September. A similar charge a year earlier cut *profits* to £630m. It might have managed a few percentage points of underlying profit growth in the latest year.

The City hopes GrandMet will spell out on Thursday what the charge, announced in October, will entail. The other key area is the performance of IDV, its spirits business, particularly in the US.

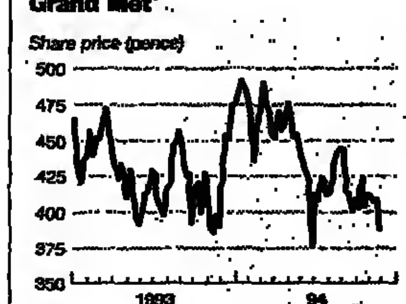
■ **Severn Trent**: The UK water utility is expected tomorrow to report interim profits about 7 per cent ahead to £157m ($257.5m). Investors will be looking for a substantial improvement at the group's waste services division, Biffa, along with information on cost control.

■ **Argyll Group**: The UK's third-largest grocery retailer and owner of the Safeway chain, is expected to report interim pre-tax profits of £206m ($337.8m) on Wednesday. This marks an increase from £199m previously, after restating the figures to allow for the group's decision a year ago to start depreciating its store values. The group is thought to be improving net margins through tight cost control.

■ **Seeboard**: The company will kick off what is expected to be a controversial interims season for the England and Wales regional electricity companies (recs) when it reports on Thursday. Profit figures for the first half of the year are always of limited significance but the recs' dividend rises always provoke criticism. Seeboard is expected to be relatively restrained, with analysts forecasting rises of about 16 per cent. However some of its peers are likely to go beyond 20 per cent.

■ **Royal Bank of Scotland**: Forecasts for pre-tax profits for the full-year *centre on £508m to £528m ($865.9m)* (against £258m last time) when the bank reports on Thursday. This takes account of the payment announced last year to Mr Peter Wood, chief executive and founder of Direct Line, the group's motor insurer, of £21m, and the extra £50m from RBS' disposal of its stake in 3i. Forecasts for the full-year dividend range from 12.5p to 13.8p, against 11p.

Grand Met



Source: FT Graphite

Companies in this issue

Halifax faces competition hurdle

By Robert Rice, Legal Correspondent

The proposed merger between the Halifax and Leeds building societies faces several regulatory hurdles before members can vote on it next March, the most immediate of which is over competition.

The Office of Fair Trading has confirmed that it has launched a preliminary investigation to see whether it should be blocked on competition grounds.

Although there is some question whether the combined society would have 25 per cent of the UK residential mortgage market, the merger qualifies for vetting as the society being taken over, the Leeds, has assets of £20bn.

The OFT will hope to complete its inquiry within a month, after which it will make a recommendation to Mr Michael Heseltine, trade and industry secretary.

He will then decide whether to allow it to go through, unchallenged or with conditions, nr whether to refer it to the Monopolies and Mergers Commission. A full MMC inqulry wonld take three months.

If the proposal clears the competition hurdle, the merger should be straightforward. The procedure involves "a transfer of engagements" which amounts to a transfer from the Leeds to the Halifax of all the Leeds' assets, liabilities and members.

A transfer statement explaining the detailed terms of the merger will be sent to members of both societies next spring, after which they must both obtain the approval of their investing and borrowing members.

The conversion of the merged society to a bank is more onerous, but the societies have the successful Abbey National precedent to follow.

The first step would be to form a successor company and get a clear indication from the Bank of England that it would be authorised as a bank under UK banking legislation. Special provisions attach to the new company. Its memorandum and articles must protect it from takeover for five years.

The conversioo must then be approved by the merged society's members and the Building Societies Commission. A special resolution requiring a 75 per cent vote in favour must be passed by investing members. In addition 20 per cent in nomber of those eligible to vote must pass the resolution. Borrowing members must approve by a simple majority.

To induce members to vote, the societies plan to offer all members free shares in the new company as the Abbey did. By doing this rather than offering cash, they should avoid the problems into which the Cheltenham & Gloucester/Lloyds Bank deal ran.

Yorkshire stirs societies' pudding

Alison Smith reports on the sector's reaction to the merger plans

For the second time this year building societies are hoping to prove that reports of the sector's demise are premature.

But the agreement between Halifax and Leeds Permanent building societies, two of the UK's biggest, to merge and then to become a public limited company and a bank has set them a serious challenge.

Reaction oow is different from responses to tbe announcemant in April of Lloyds Bank's £1.8bn agreed cash bid for Cheltenham & Gloucester Building Society, the UK's sixth largest.

Then there was less to put societies on the defensive. The Lloyds offer could be seen as a sign of its strength in the core markets of home loans and retail savings, while increased interest from potential purchasers could not be a threat since the mutual ownership regime protects societies from hostile takeover.

By contrast, last week's announcement by the two Yorkshire-based societies planted two doubts.

First, if Leeds, the fifth largest society with assets of £20bn, did not feel large enough to survive alone, what would happen to smaller societies?

Second, if Halifax – almost twice as big as the second largest – believed it had to convert to plc-status in order to compete effectively in personal financial services, how could othar large societles do so while still shackled to the regulatory restrictions on societies' activities and funding?

Despite these concerns, the remaining large societies are not planning a suicide pact.

"You can never say never, but there are no powers we want that we will not be getting anyway, and capital is not a problem, so why convert?" says Mr Peter Robinson, managing director of Woolwich Building Society, the UK's third largest.

Indeed, societies can see some advantages for themselves from the Halifax move – for example in the disappearance of the Leeds brand and discussions with the Treasury about new powers for societies.

Mr Anthony Nelson, Treasury economic secretary, has said the government wants a separate societies' sector to flourish. Consequently, Mr Brian Davis, chief executive of Nationwide, the second largest society, believes the deal strengthens the case for greater flexibility so societies can compete more effectively in their present form.

The common refrain among large societies is that above a certain minimum, size is not everything. They can focus either on developing a particular niche – as Bradford & Bingley is seeking to do as the largest Independent financial advisar – or on a strong regional franchise – such as Northern Rock's position in north-east England.

While in tha short term those tactics are not undermined by the Halifax move, the agreement does intensify the pressures for change over the next few years.

In particular, the deal makes it much more likely that a large society planning to merge or convert will now decide to do both.

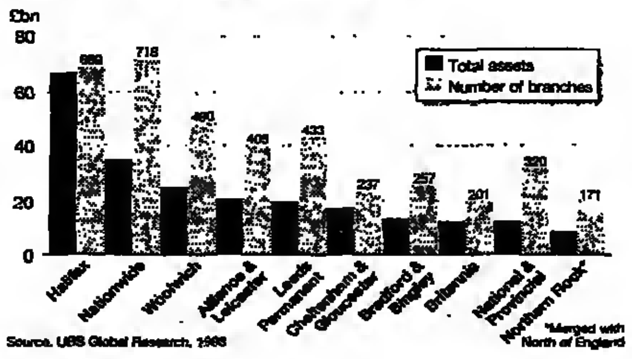
The case for a pre-conversion merger is that the larger a society is when it becomes a plc, the better-placed it is to deter potential predators. If the Leeds had decided to float on its own, it could have been destabllised by speculation about a hostile bid well before it could have been taken over.

The argument for adding conversion is that, as members are increasingly aware of the value of their membership, they need the promise of shares tomorrow to persuade them to back a deal which does not bring much, if any, immediate financial benefit.

Mr Peter White, chief executive of Alliance & Leicester, says the society will not be making any "panic decisions", since getting the right partner is more important than simply enjoying the idea of a match.

Societies do not need to panic now. But with the reasonable assumption that there will be further large mergers, they would probably be well-advised to join a dating agency so as not to be left on the shelf.

Top 10 Building Societies



Source: UBS Global Research, 1995

Interim growth at Ideal Hardware

By Alan Cane

Ideal Hardware, the distributor of computer storage products, is benefiting from the rapid growth of computer networks and communications systems.

For the six months to September 30 the company reported a 34 per cent increase in pre-tax profits from £1.74m to £2.34m, on turnover 55 per cent ahead at £45.7m (£29.4m).

Earnings per share rose 33 per cent to 7.51p (5.66p) and the maiden interim dividend is 3.4p. Cash was strong at £8.8m.

The company distributes storages systems for all levels of computer apart from mainframes.

Mr James Wickes, managing director, said trading had been strong throughout the period. The price of equipment was falling hut customers needed more storage to support larger networks.

Mr Richard Jewson, chairman, said since the company floated earlier this year, it had signed distribution agreements with International Business Machines and had been appointed UK distributor for AT&T's personal computers.

He said growth had continued despite capacity constraints, adding that, since the second half of the year was traditionally stronger than the first, he was confident of a satisfactory performance for the year.

American Opportunity

American Opportunity Trust had net assets of £16.8m at the end of the year to September 30. This represented a rise of 18 per cent on last year's £14.2m, and compared with a 4 per cent fall in Standard & Poor's Composite index.

Fully diluted net assets per share were 139.5p (121.6p).

Net deficit for the year widened to £89,000 (£77,000), with losses per share of 1.18p (1.02p) and no dividend recommended.

The Hambro-managed trust changed its name from Leveraged Opportunity Trust.

Alphameric expands and lifts profit 81%

By Nigel Clark

Alphameric, the information technology systems supplier, has announced a number of actions as part of its expansion plans. They include a £2.75m acquisition, a £1.89m placing and open offer, a share subscription and the conversion of preference shares.

The company also announced pre-tax profits of £333,000 for the six months to September 30, a rise of 81 per cent on the comparable £178,000.

It is acquiring the outstanding 25 per cent in AlphaServ by buying Ambrose Consultancy for £2.75m satisfied by the issue of 6.88m shares of which 2.67m are being placed at 37.5p a share. There is a 3-for-13 clawback.

A further 3.56m shares are being placed under the same terms to raise £885,000 for working capital and to fund expansion.

Sejin Electron, a South Korean keyboard manufacturer, is subscribing for 3m shares at 41.5p, subject to South Korean government approval.

The company also plans to convert the 500,000 9¾ per cent convertible preference shares held by 3i into 1.2m ordinary shares. The conversion rate is 2.41 per convertible against the 1.38 set out in the articles of association.

If the plan goes through Alphameric will pay the £137,000 arrears on the preference shares. An EGM is to be held on December 19.

The profit rise was achieved on turnover 19 per cent ahead at £6.3m (£5.28m). Earnings per share doubled to 0.8p (0.4p).

Mr Alan Benjamin, chairman, said that if the present level of progress was sustained the company could be in a position to restore dividends in 1994-95.

The shares rose 1p to 41p on Friday.

Eclipse makes disposal

Eclipse Blinds has sold the business and assets of tha Apollo Blinds retail franchise to Hunter Douglas (UK) for £2.4m cash, plus an estimated £190,000 in respect of the value of certain debtors attributable to the Apollo business.

Apollo makes window blinds for franchise retail outlets in the UK and Irish Republic and supplies about 70 outlets which sell window blinds under the Apollo brand name.

The sale is in line with Eclipse's policy to develop around the profitable merchandised distribution of textiles and tha component parts of window blinds.

Minmet in I£630,000 rights and placing

By Geoff Dyer

Minmet, the Dublin-based electronic information, mining and exploration group, is raising I£630,000 (£620,811) through a 1-for-6 rights issue and the placing of up to 5m new shares at 2.5p per share.

The new funds will be invested in Russia Money, an on-screen information service joint venture, Solent Trees, a mature trees business, and the group's Russian gold interests.

The group is also negotiating with Gulf Explorations Consultants, a US shell company in which Minmet has a 23.8 per cent stake, a possible paper bid for Minmet by Gulf.

Mr Paul Bristol, chairman of Minmet, said that if a Gulf bid were accepted by Minmet's shareholders, the new entity would seek to revive its listing on Nasdaq, which may be considered a more suitable market than Dublin for raising funds for Russia Money and the group's Russian gold mining operations.

Mr Bristol said he hoped the negotiations with Gulf would be completed before the December 18 deadline for the rights issue.

Shares in Minmet closed unchanged at 2¾p on Friday.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Ciba-Geigy (Switzerland)	Chiron (US)	Pharmaceuticals	£1.3bn	Ciba seeking 49.9 %
Pfizer (US)	Unit of SmithKline Beecham (UK/US)	Animal health	£906m	SKB dealing again
Rolls-Royce (UK)	Allison Engine Co (US)	Aircraft & parts	£328m	RR's biggest ever buy
Danone (France)	Bagley (Argentina)	Food	£150m	First Argentine foothold
Hammerson (UK)	CIPM (France)	Property	£32.6m	Second French buy in week
David S Smith (UK)	Toscana Ondulati (Italy)	Paper & packaging	£12m	Option taken to buy
McKechnie (UK)	Unit of Hunter Douglas (Australia)	Distribution	£7.5m	McKechnie continues growth
Amcor (Australia)	Flexible Holding (US)	Paper & packaging	n/a	Amcor continues packaging buys
NSK (Japan)/Ingersoll-Rand (US)	Nastech Europe (JV)	Motor components	n/a	Pooling European operations
NorthWest Water UK/ Bechtel Corp (US)	Strategic alliance	Water & waste	n/a	Far-reaching global plans

LEGAL NOTICES

No. 007245 of 1994

IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION

IN THE MATTER OF BALTIC TRUST PLC
AND
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on the 9th November, 1994 presented to Her Majesty's High Court of Justice for confirmation of the reduction of the capital of the above named Company from £7,300,000 to £549,930.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before Mr Registrar Buckley at the Royal Courts of Justice, Strand, London, WC2A 2LL on Wednesday 14th day of December 1994.

Any creditor or shareholder of the Company desiring to oppose the making of an Order for the confirmation of the said reduction of capital should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the under mentioned solicitors on payment of the regulated charge for the same.

DATED this 28th day of November 1994.

Nabarro Nathanson
50 Stratton Street
London W1X 5FL
Tel: 071-493 9933
Ref: 1A/GT/B1302/142

Solicitors for the Petitioning Company

No. 006600 of 1994

IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION

IN THE MATTER OF CARE UK PLC
-and-
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 9th November 1994 confirming the reduction of (1) the authorised share capital of the above named Company from £8,573,287.07 to £5,600,000 and (2) the Share Premium Account of the Company by £35,217,095 and the Minute approved by the Court showing with respect to the capital of the Company as altered the several particulars required by the above mentioned Act were registered by the Registrar of Companies on 14th November 1994.

Dated this 28th day of November 1994.

Nabarro Nathanson
50 Stratton Street,
London W1X 5FL
Tel: 071 493 9933
Ref: 1A/CJG/C2308/1

Solicitors for the above named Company.

No. 006599 of 1994

IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION

IN THE MATTER OF COMMUNITY HEALTH SERVICES LIMITED
-and-
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 9th November 1994 confirming the (1) reduction of the authorised share capital of the above named Company from £3,000,000 to £1,469,193 and (2) cancellation in its entirety and thus reduction to £0 of the Share Premium Account of the Company amounting to £4,209,465 and the Minute approved by the Court showing with respect to the capital of the Company as altered the several particulars required by the above mentioned Act were registered by the Registrar of Companies on 14th November 1994.

Dated this 28th day of November 1994.
Nabarro Nathanson
50 Stratton Street,
London W1X 5FL
Tel: 071 493 9933
Ref: 1A/CJG/C2308/1

Solicitors for the above named Company.

COMPANIES AND FINANCE

Bad debt disposals hit Japanese banks

By Gerard Baker in Tokyo

Substantial bad loan write-offs reduced recurring profits – before extraordinary items and tax – at Japan's long-term credit banks and trust banks in the six months to the end of September. However, most banks were able to report higher operating profits in a more favourable interest rate environment.

The three long-term credit banks, which are principally wholesale lenders to Japanese companies, saw combined pre-tax profits fall by 20.1 per cent. The decline was largely the result of the disposal of bad debts accumulated during the collapse of asset prices in recent years.

Write-offs reduced outstanding non-performing loans to Y1,800bn ($1.82bn), a fall of 19 per cent on a year earlier. However, these figures do not include restructured loans, where interest rates have been cut to assist borrowers in severe trouble.

Analysts estimate that if these were added to the total, bad loans would be approximately double the disclosed levels.

The long-term credit banks used gains from sales of equities to offset the write-offs, but these were not enough to cover the full charge and pre-tax profits declined as a result.

There were mixed fortunes in operating profits. The Industrial Bank of Japan, the largest of the three, managed to take advantage of lower discount bond rates to record a 32 per cent increase in operating profits, but the two smaller banks both saw operating profits fall.

They attributed the decline to lower profits on government bond investment income than last year, when they benefited strongly from sales of bonds as interest rates fell.

For the full year to the end of March the three banks expect combined pre-tax profits of Y126bn, up by 18.6 per cent from 1993–94.

The trust banks, many of which have had severe difficulties during the period of falling asset prices and resulting problem loan increases, also pursued an aggressive policy of writing off bad loans.

As a result, they reported combined pre-tax profits lower by 23 per cent at Y48.7bn. But operating profits for most of the banks were sharply higher – by an aggregate of 57 per cent.

The trust banks said the improved operating profits were the result of the fall in interest rates in the previous six months – September 1993 to March 1994 – which, because of the structure of their assets and liabilities, was not reflected in margins until the first half of the current financial year.

Most banks reported declines in outstanding non-performing loans, with one exception – Nippon Trust. The bank was taken over two months ago by Mitsubishi Bank in an attempt to rescue it from its enormous burden of bad loans. At the time of the takeover, Mitsubishi warned that bad loans were set to rise for some time.

The increase in Nippon Trust's bad loans accounted for the fact that aggregate disclosed non-performing assets rose by 1.1 per cent between March and September this year, to Y2,700bn.

However, like the long-term credit banks and the city banks, the trust banks said that they expected to clear their bad debt problem within three years.

● Sumitomo Bank: In last week's tabulation of the Japanese city banks' half-year results, the figure for Sumitomo Bank's increase in non-performing loans should have been 7.5 per cent.

Long-term credit banks: Six months to September 1994 (Ybn)

Bank	Operating revenues	Change on year (%)	Operating profits	Change on year (%)	Recurring profits*	Change on year (%)	Net profits	Change on year (%)	Non-performing loans	Half-year change (%)
IBJ	1,492.9	+2.6	85.8	+32.7	27.9	-16.3	15.4	-0.1	514.3	-24.6
LTCB	1,123.6	+10.2	43.2	-8.8	18.6	-12.8	13.0	+0.2	728.8	-19.2
Nippon Credit	800.0	+0.7	33.4	-10.1	11.5	-36.0	8.6	-0.4	800.8	-3.1
Trust banks										
Mitsui	513.8	-0.2	28.4	+47.5	9.2	-6.6	5.7	-0.9	595.8	-0.3
Mitsubishi	542.1	+9.1	77.3	+74.0	14.0	-15.1	8.0	-8.2	494.8	-5.9
Sumitomo	582.5	+13.8	83.4	+93.0	10.5	-38.9	7.9	-7.6	521.2	-9.3
Yasuda	341.1	-2.6	23.4	+31.2	7.9	-21.1	4.8	+5.0	425.7	-3.3
Toyo	221.7	-17.1	18.5	+18.1	-4.6	-14.7	3.5	-5.7	297.0	-6.1
Chuo	142.3	-5.0	6.1	-30.9	3.0	-12.4	1.6	-8.9	176.5	-2.2
Nippon	35.5	-18.6	-0.3		-0.5		-1.7		231.3	+81.8

* before extraordinary items and tax. Source: company reports

Telecoms battle

Continued from Page 15

DT was always the favourite but Mr Morris claimed: "They won even though they were not the highest bidder. So it was obviously satisfactory."

In 1994, Goldman worked closely with DT and France Telecom when the two European companies invested some $4.2bn in Sprint, the US telecommunications concern. Between these deals, Goldman's executives worked hard to cultivate the relationship.

For at least six – and usually 10 – executives based in Frankfurt and London, the DT deal was a priority. Goldman even moved Mr Morris, its pre-eminent telecoms analyst, from the US to London last year in order to help with the Telekom campaign.

The bank used every opportunity to strengthen its ties with DT, keeping the company informed about the progress of other international privatisation deals in which it has been involved.

"We filled them in on our views on the evolution of technology and the background to privatisation, said Mr Morris.

Goldman was heavily involved in the sale of Singapore Telecom in 1993, and this year has been in three large deals. It was a book-runner in the sale of Tele Danmark, the Danish company, Thailand Telephone & Communications and Indosat, the Indonesian long distance telecommunications company.

While the fees to be earned by the various banks from the Deutsche Telekom deal are clearly attractive at DM400m or more, Goldman says the real value of the deal is strategic.

"This is a deal which every institution we talk to will be interested in. And for our German office and our telecommunications business it is of extraordinary importance," insisted Mr Mead. "A relationship with Telekom has a pay-back you can't measure in terms of fees," he added.

Rightly or wrongly, said Mr Morris, "there is a perception in the marketplace that if you have passed the test in Germany you have passed German engineering standards in relation to telecommunications flotations. It shows that the doors fit snugly and the wheels are tight."

Higher costs restrict ITC

Launch expenses of low-cost cigarette brands and an oilseeds business decline restricted sales and profit growth of India's biggest tobacco company, ITC, Reuter reports from Bombay.

ITC reported an 11 per cent increase in gross sales to Rs22.77bn ($726m) and a 30 per cent rise in net profit to Rs1.16bn for the half year to September 30 but the earnings increase was modest compared with the general trend of many companies posting more than 100 per cent rises for the half year, analysts said.

"It is a little disappointing for a market which is used to better results from ITC," said one. "They focused on high volume sales of low cost brands in rural India. This is a good strategy in the long run, but marketing expenses eroded margins."

ITC, which is 31.5 per cent owned by BAT Industries of the UK, recorded a 6.4 per cent increase in cigarette sales in value terms after several years of stagnant growth. Cigarettes contribute to more than 60 per cent of ITC's sales.

Philippines mine lower

By Jose Galang in Manila

Benguet, the Philippines' leading mining company, reported net profits for the nine months to end-September of 13.8m pesos ($0.58m), a steep drop of 95.7 per cent from the previous year. Total operating revenues amounted to 2.24bn pesos, down 6.3 per cent.

The results were affected by poor ore grade which "significantly improved" by the start of the fourth quarter of the year. The company expects full recovery by the first half of 1995.

Gold production, Benguet's principal activity, suffered a decline following an earthquake that damaged part of the Antamok mine, with the clean-up later delayed by heavy rains. Losses from its Antamok open-pit mine in the January to September period reached 42.1m pesos, down, however, from the previous year's 70.3m pesos.

Copper production, on the other hand, slowed in the third quarter due to breakdowns in the Dizon mine's concentrator plant.

KIO plans write-off of Grupo Torras debt

By Tom Burns in Madrid

The Kuwait Investment Office (KIO) plans to write-off Pta184.4bn ($1.4bn) to bring its Spanish holding, Grupo Torras, out of receivership under the terms of a settlement proposed to minority creditors.

The development represents the formal acknowledgement by the KIO and by its parent, the Kuwait Investment Authority (KIA), of Kuwait's continued interest in Grupo Torras despite a legal feud between former and present managers of the company that led to an application by Grupo Torras for protection against its creditors in December 1992.

The proposed write-off is the equivalent of 90 per cent of the Pta205.4bn owed by Grupo Torras to KIO/KIA, a debt total that represents 93.5 per cent of the total sum owed by the Spanish company to its creditors. The remaining 6.5 per cent of the debt, representing Pta14.4bn, is highly dispersed among financial and public institutions and among bond holders.

The settlement proposes a sliding scale: minor creditors, owed less than Pta1m, would be repaid 97 per cent of their loan to Grupo Torras within three months; Creditors who lent between Pta100m and Pta1bn are being asked to write-off 80 per cent of their loans and will be repaid the balance within six months.

The creditors have until January 21 to approve the settlement but this approval is a mere formality for under Spanish law such an agreement requires a favourable vote representing 75 per cent of the debt owed, a proportion that is well below the threshold of the direct Kuwait loans to Grupo Torras.

The chief beneficiaries of the KIO's proposed write-off will be Torraspapel, a paper group owned by Grupo Torras, and Ercros, the holding's fertiliser division. Both companies were placed into receivership before Grupo Torras itself collapsed and they have since received considerable financial backing from the KIO.

Israel sells 26% controlling stake in Bank Mizrahi

By Eric Silver in Jerusalem

The Israeli government has sold a controlling interest in Bank Mizrahi, the country's fourth-ranking bank, for $110m. The buyers, the Ofer-Wertheim consortium, purchased a 26 per cent stake with an option to acquire a further 25 per cent within 18 months.

Mizrahi is the first of the "big four" banks to be privatised. The government acquired major holdings in all of them for $7bn in 1983 after the collapse of an elaborate system run by the banks for ramping up their own shares.

Mr Gill Leidner, managing director of MI Holdings, the government agency charged with selling off the state's stake, said yesterday: "The Mizrahi sale is a major step forward. It will definitely push things ahead for the sale of the other three big banks."

He described the $110m sale price as "reasonable" but admitted he had hoped to raise more. Mizrahi last week reported a 25 per cent drop in net profits for the third quarter of 1994, to Shk26.1m ($8.6m) from Shk36.2m in the same period of 1993. Earlier this year the bank was valued for MI Holdings at $450m to $500m.

The Israel-based Ofer-Wertheim group is controlled by the brothers Mr Sami and Mr Yuli Ofer and two businessmen, Mr Muzi Wertheim and Mr Abe Feinberg. The Ofers control 50 per cent of the consortium, with Mr Wertheim and Mr Feinberg holding 25 per cent each.

Mr Leidner explained that even if they did not take up the option to buy another 25 per cent of Mizrahi, the chance that anyone else would be able to buy anything close to it was theoretical.

MI Holdings sold the state's 42.5 per cent stake in IDB Holding, the industrial investment arm of Israel Discount Bank, the country's third largest bank, for $350m in 1992 but has still to sell the bank itself. In 1993 the government sold the smaller Israel Union Bank for $85.5m.

Mr Leidner is negotiating to sell the second biggest bank, Leumi, to Republic Bank of New York. He expects the sale to be completed during the first half of 1995. An international tender is to be issued for the leading bank, Hapoalim, within the next two months.

Canadian paper group swings back to profit

By Robert Gibbens in Montreal

Canadian pulp and paper producers are expected to report a sharp climb in profits in the final quarter of this year, driven by rising prices for pulp, newsprint, fine paper and packaging.

Tembec, a big eastern producer, provided a taste of things to come when it reported a profit of C$72.9m (US$53m), or C$2.24 a share, for the year to September 30, a swing of nearly C$122m from a loss of C$48.6m, or C$1.33, a year earlier.

The C$65m proceeds from a financial restructuring accounted for part of the increase and the rest came from higher selling prices, especially in the September quarter. Costs were stable.

Since September 30, prices worldwide have risen further for nearly all Tembec's products. The company exports to more than 50 countries. The latest fiscal year showed sales of C$575m, up 32 per cent.

Tembec's 50 per cent-owned French pulp mill contributed C$3.9m in operating income and the 41 per cent-owned Ontario newsprint affiliate contributed C$6.9m.

Most of Tembec's operations are based in north-western Quebec.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, November 25, 1994. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

Country	Currency	£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	5430.03	3473.88	2228.53	3517.54
Albania	(Lek)	157.57	100.808	64.6679	102.075
Algeria	(Dinar)	63.8880	40.8777	26.2224	41.3914
Andorra	(Fr Franc)	8.3718	5.3557	3.4357	5.423
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gambia	(Dalasi)	14.9352	9.5548	6.1295	9.6749
Germany	(D-Mark)	2.4368	1.5688	1	1.5784
Ghana	(Cedi)	1599.38	1023.2	656.38	1036.08
Gibraltar	(Gib £)	1.00	0.6397	0.4104	0.6477
Greece	(Drachma)	375.856	240.328	154.172	243.346
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pakistan	(Pak. Rupee)	47.8587	30.6184	19.642	31.0032
Panama	(Balboa)	1.5631	1	0.6415	1.0125
Papua New Guinea	(Kina)	1.7997	1.1513	0.7386	1.1658
Paraguay	(Guarani)	3010.58	1926.02	1235.56	1950.22
Peru	(New Sol)	3.4088	2.1814	1.3994	2.2088
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Bronwen Maddox

The point of maximum danger

If you take the word of 40 leading European industrialists, the region's manufacturing companies are now at the "point of maximum danger" in the economic cycle. The report, prepared by the European Round Table ahead of next month's European summit in Essen, also argues that it is an illusion to believe that economic recovery signals an end to Europe's competitiveness crisis.

The authors are right to draw that conclusion. Nine-month trading figures from Bayer and Hoechst, the German chemical and drug giants, which are expected today and Wednesday respectively, are likely to confirm many of the points raised.

Pre-tax profits are expected to have rebounded from last year's depressed levels, but margins in some product areas are expected to show the effects of growing competition. In chemicals and petrochemicals in particular, the breathing space which margins have enjoyed recently may be short-lived. Competitors' new capacity which comes onstream shortly in Asia and America is expected to increase competition both in those countries and within Europe.

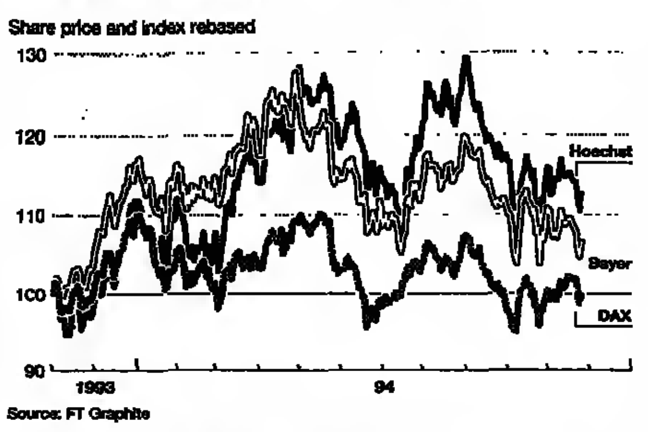
The authors are right to point out, too, that one of the threats to profits is that wage settlements will edge upwards. They argue that at this stage in the economic cycle manufacturers often "let loose" on costs, especially wages. Given the current backdrop of continent-wide industrial unrest, investors would be wrong to dismiss that threat. The authors may, though, make rather too much of this factor; it is too early to conclude from the current disputes that Europe's historically rigid wage structures have persisted through recession intact.

The report's gloominess about Europe's high costs of energy, telecommunications and transport may also be warranted.

When such markets are deregulated, the reduction in costs can be rapid: the liberalisation of European voice telephony, combined with privatisation of many of the telecommunications operators, is a case in point.

German drug and chemical companies

Share price and index rebased



Source: FT Graphite

Total return in local currency to 24/11/94

	% change over period					
	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.11	0.04	0.09	0.10	0.15	0.09
Month	0.42	0.19	0.41	0.45	0.70	0.46
Year	3.69	2.06	5.31	5.82	8.63	5.19
Bonds 3-5 year						
Week	0.48	0.65	0.73	0.79	0.37	0.61
Month	-0.04	1.08	1.35	1.35	1.48	2.19
Year	-2.32	-0.35	0.98	0.28	3.44	0.69
Bonds 7-10 year						
Week	0.32	0.91	1.47	1.69	0.52	1.26
Month	-0.19	1.44	2.80	2.40	1.86	3.32
Year	-6.31	-1.44	-2.56	-5.02	-2.20	-2.74
Equities						
Week	-2.8	-2.8	-2.0	-2.5	-1.6	-2.8
Month	-1.9	-5.6	1.2	4.8	0.3	0.6
Year	0.7	1.4	-0.1	-2.6	21.4	3.2

Source: Cash & Bonds - Lehman Brothers. Equities-© NatWest Securities.
The FT-Actuaries World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co., and NatWest Securities Limited.

Siemens, the German industrial group, says that European prices for switching and transmission equipment have fallen in real terms by about 7 per cent in each of the last three years, and by even more in Germany. The cause is partly recession and partly the increasingly open procurement policies adopted by its customers, including Deutsche Telekom, Germany's state-owned telecoms monopoly, whose privatisation is forthcoming.

But while companies across Europe will eventually benefit from lower telephone charges, the liberalisation puts great pressure on the margins of suppliers, such as Siemens. Last year it reported a fall in new orders, and analysts are concerned that, despite spending 15 per cent of revenues in its communications divisions on research and development, it will struggle to hold margins and market share within Europe.

The paradox is that European companies want the benefits of liberalisation – such as lower utility costs which will enable them to compete better abroad – but resent such measures when they stimulate competition on those companies' home turf.

Similarly, while the 40 companies represented in the Round Table havs called for cuts in public spending, much of the European pharmaceutical industry has been threatening governments that if public spending on drugs continues to be squeezed, great damage will be done to research and development, and so to the competitiveness of some of Europe's largest companies.

In some sectors, the opposition of Europe's largest companies to such cost-reduction measures may stall them completely. Tomorrow's meeting in Brussels of European Union energy ministers will serve to highlight the obstacles to the Commission's drive to liberalise Europe's energy markets. The proposals to allow rival energy companies access to countries' power distribution natworks has met with ferocious complaints from power companies.

Given such opposition, investors may well be sceptical that European institutions will in the end be willing to make the changes necessary for competitiveness.

That should not, though, distract investors from concern they should also feel about the prices paid for investments ontside Europe. Not least, European chemical and pharmaceutical companies have made a string of forays in the past year into healthcare in the US, Asia and Eastern Europe.

Hoechst, for one, has spent heavily on moving into emerging east European markets, and is negotiating several joint ventures in China. Mr Jürgen Dormann, Hoechst's chairman, has said that he aims to double sales in Asia to 20 per cent of group turnover.

But the concern for investors is whether that is an adequately profitable escape from competition at home, given the ferocious competition already present in non-European markets.

Mr Dormann acknowledged earlier this month that Hoechst had "perhaps" paid too high a premium in last year's $546m purchase of 51 per cent of Copley, the US generic drugs maker. Moreover, despite Hoechst's anxiety to add several more mid-sized pharmaceuticals companies to its recently-acquired US interests in generic drugs, it says that it is waiting until acquisition multiples become more reasonable.

It may have a long wait, however: there is little sign that they are doing so. Meanwhile, as investors brace themselves to hear the price paid in the sector's next takeover, they cannot afford to take too much comfort from the recovery of core earnings. While this week's results should confirm that picture, that is no guarantee that profit margins will be intact five years from now.

COMMODITIES / Richard Mooney

Light clouds over coffee talks

Members of the Association of Coffee Producing Countries are to meet in London on Friday to discuss changes in the market situation. They could have more to discuss than seemed likely when the meeting was scheduled.

The association was formed to organise a retention scheme aimed at reviving coffee prices, which came into effect just over a year ago. Its initial success in lifting prices to 2½-year highs resulted in the suspension of retention, even before the market surged on news of damaging Brazilian frosts in June and July.

With concern over a subsequent drought in Brazil driving prices to 8½-year highs – more than three times the levels prevailing at the inception of tha scheme – Friday's meeting might have been expected to be largely self-congratulatory. But recent events have introduced an element of doubt into market prospects.

Since the Brazilian government gave its official assessment of the size of its damaged 1995-96 crop – which was broadly in line with market estimates – prices have tumbled. A higher than expected figure for Brazilian coffee stocks released last week accelerated the slide and nearby robusta futures prices in London dipped below $3,000 a tonne, more than $1,000 less than the September peak.

The market remains well above the level that the retention scheme was designed to support, but with chart analysts suggesting that further falls could be on the cards, delegates at Friday's meeting may not have such a rosy picture to review as they might have hoped.

● Other events this week include a five-day meeting, starting today, of the International Natural Rubber Organisation. Agreement is expected to be reached on tha extension of the price-stabilising 1987 International Natural Rubber Agreement for another year after its scheduled expiry on December 31. Wednesday sees the release of the International Wheat Council's latest monthly crop report.

Economics Notebook

Debate on Emu timing hots up

European issues continue to fascinate and alarm. But while attention in the UK has been focused on today's Commons debate over contributions to the European Union budget and the British cabinet's "suicide pact" to fend off the threat of a backbench Tory revolt, discussion elsewhere in Europe has shifted back to economic and monetary union.

Half-forgotten pledges in the Maastricht Treaty have gained a new lease of life. The European Commission, in the person of Mr Giovanni Ravasio, its director general of economic and financial clauses, set the ball rolling about ten days ago when he declared that Emu was a "feasible option" for 1997, the first target date in the treaty.

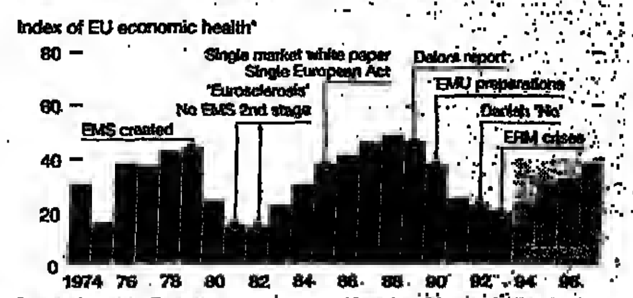
Since then, some formidable figures have waded into the debate on the side of caution. Mr Hans Tietmeyer, president of the Bundesbank, has stated his conviction that "monetary policy integration in Europe can only be the outcome of a lengthy process." He later criticised the Maastricht convergence criteria for low inflation and manageable budgetary positions as "unambitious".

Interviewed by a French newspaper, Mr Kenneth Clarke, the chancellor, pronounced the Maastricht timetable "completely dead", while making clear that he was sympathetic to Emu as a general objective.

Last week in Brussels, Mr Antonio Martino, the Italian foreign minister, challenged the whole idea of the Maastricht spproach of gradual convergence towards Emu as "economically fallacious and politically dangerous." Convergence was "neither a necessary nor a sufficient condition for monetary unification," Mr Martino said.

Economic trends and political ambitions

Index of EU economic health*



Source: Centre for European Policy Studies, Brussels

*Based on GDP, production, inflation, unemployment, current account balance and government balance

Complaining that the "convergence paradigm" might result in the division of Europe into a club of supposedly virtuous countries that met the criteria and others deemed unfit for such an exclusive club, Mr Martino called instead for a "monetary constitution" for Europe. "Those of us who believe that monetary unification is desirable should concentrate on identifying the rules most suited to that end."

In less than a fortnight, four significant personalities have pronounced on a subject that Mr John Major in September 1993 said would have "all the quaintness of a rain dance and about the sams potency." True the voices are discordant. But they show that the debate in Europe about Emu is hotting up.

The sccompanying chart shows why. Europe's economy is recovering strongly from recession. A healthy EU economy has usually stimulated greater economic and monetary integration.

The latest commission forecasts suggest that EU economic growth will accelerate to an average of 2.6 per cent this year, from 0.4 per cent in 1993. It has projected growth of 2.9 per cent next year, followed by 3.2 per cent in 1996.

Government deficits should drop: to 3.9 per cent of EU gross domestic product by 1996. True, this forecast is above the Maastricht criterion of 3 per cent. But it is based on unchanged policies. Mr Ravasio has predicted that a majority of member states could meet the excessive deficit criterion before the end of 1996 "if consolidation efforts are undertaken."

But there is more to making Emu work than meeting Maastricht critaria. Mr Malcolm Levitt, EU adviser of Barclays Bank, has pointed out that the "boring bits" of Emu, such as the introduction of Ecu notes and coinage, adaption of payments and accounting systems, conversion of electronic card facilities in shops and restaurants and the reaolution of legal uncertainties, could take five years.

Mr Levitt's argument is that is already too late to contemplate Emu starting in 1997. For Emu to start in 1999, the second date envisaged in the treaty, preparations would have to begin now.

This is not yet the case in the private sector, Mr Levitt reports that companies are largely unaware of what needs to be done. The few banks and companies that have studied the issue are uncertain about the precise timetable and scenario and are therefore not making the investments necessary for introduction of a single currency.

Things are more advanced in the public policy area. The European Monetary Institute this month secured the approval of central bank governors for a "master-plan" aimed at completing the technical arrangements for the proposed European System of Central Banks by the end of 1996.

Mr Alexandre Lamfalussy, the EMI president, has also produced a suggestion for moving to Emu hy the end of the century. He says the EU should consider irrevocably fixing ths exchange rates of its currencies, hut delay before introducing the Ecu, the single European currency.

Mr Lamfalussy's idea for a phased introduction of stage three of the Maastricht Treaty would hand over responsibility for monetary policy to a European central bank with the fixing of currencies. It would allow time for dealing with technical problems, such as common banknotes or compatible payments systems.

The Maastricht Treaty says that Emu should go ahead in 1999, even if only a minority of EU members meet the treaty criteria. The Lamfalusay auggestion could make this a feasible option. But for Britain, it raises the prospect of even greater political ructions than at present.

Peter Norman

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

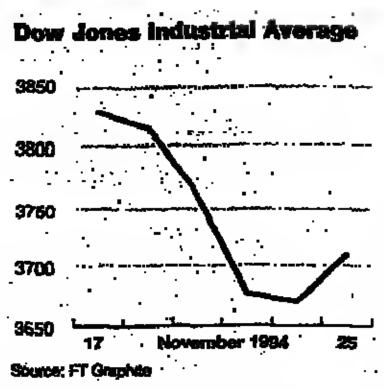
NATIONAL AND REGIONAL MARKETS	FRIDAY NOVEMBER 25 1994								THURSDAY NOVEMBER 24 1994					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	%chg since 31/12/93	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/93	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (68)	167.56	0.4	158.94	104.61	135.80	146.66	-10.3	3.89	165.22	156.92	102.81	133.85	144.85	189.15	149.36	164.14
Austria (16)	178.06	-3.7	168.90	111.16	144.31	144.28	-13.4	1.13	177.22	168.21	110.27	143.57	143.54	196.89	167.46	171.09
Belgium (35)	167.09	2.7	158.49	104.31	135.41	132.10	-6.9	4.15	166.79	158.31	103.78	136.11	131.90	177.04	152.74	154.07
Brazil (28)	163.35	–	154.94	101.98	132.39	258.28	–	0.80	170.61	161.93	108.16	138.21	268.19	–	–	–
Canada (103)	127.53	-6.1	120.97	79.62	103.36	127.09	-2.4	2.69	127.39	120.92	79.27	103.20	126.82	145.31	120.54	133.06
Denmark (33)	247.20	0.0	234.49	154.33	200.35	205.27	-10.2	1.45	246.72	234.17	153.51	199.86	204.73	275.78	230.27	230.27
Finland (24)	181.38	47.2	172.05	113.24	147.00	183.03	22.2	0.78	183.09	173.78	113.82	148.32	183.71	201.41	116.85	119.71
France (102)	167.87	-4.6	159.23	104.80	136.05	141.03	-13.5	3.04	167.14	158.64	104.00	135.40	140.33	165.37	169.34	163.14
Germany (58)	139.05	-0.8	131.93	86.83	112.72	112.72	-11.0	1.84	139.39	132.31	86.73	112.92	112.92	150.40	128.37	130.41
Hong Kong (56)	347.04	-29.1	329.19	216.66	281.27	344.49	-29.0	3.48	345.40	327.84	214.92	279.81	342.86	506.56	341.29	379.03
Ireland (14)	199.35	7.6	189.10	124.46	161.57	182.25	-1.8	3.51	199.75	189.60	124.29	161.82	182.18	216.60	172.99	173.40
Italy (59)	73.40	7.0	69.62	45.82	59.49	88.67	1.1	1.78	74.47	70.68	46.33	60.33	89.57	97.78	60.17	60.46
Japan (468)	151.03	18.1	143.26	94.29	122.40	94.29	2.7	0.82	151.44	143.74	94.23	122.68	94.23	170.10	124.54	137.38
Malaysia (97)	498.95	-15.7	473.28	311.50	404.38	491.36	-19.9	1.71	497.42	472.13	309.61	402.98	490.02	621.63	430.71	471.22
Mexico (18)	2029.79	-18.0	1925.35	1267.20	1646.03	7648.65	-6.7	1.34	1989.50	1888.33	1237.80	1011.66	7494.70	2647.08	1696.28	2008.95
Netherland (19)	209.58	6.3	198.80	130.84	169.86	167.04	-5.4	3.46	209.73	199.07	130.50	169.91	167.20	223.30	167.68	188.97
New Zealand (14)	72.23	6.4	68.51	45.09	58.54	61.83	-4.1	4.73	71.96	68.30	44.77	58.29	81.57	77.59	81.27	63.08
Norway (23)	194.61	8.3	184.60	121.49	157.72	180.52	-1.8	1.83	194.79	194.89	121.20	157.80	180.48	211.74	165.52	170.72
Singapore (44)	371.40	1.1	362.30	231.87	301.01	250.81	-8.0	1.70	370.38	361.55	230.46	300.05	250.22	401.38	294.88	810.32
South Africa (58)	327.97	22.8	311.09	204.75	265.80	299.78	19.7	2.15	331.59	314.72	206.32	268.61	301.88	342.00	205.55	221.80
Spain (36)	141.52	1.6	134.23	88.36	114.69	139.54	-7.5	4.19	140.51	133.65	87.61	114.07	136.67	155.79	128.88	132.31
Sweden (36)	234.58	19.5	222.52	146.45	190.12	259.37	7.0	1.54	236.65	224.52	147.19	181.63	260.37	242.81	175.83	131.04
Switzerland (47)	160.26	0.1	152.02	100.05	129.88	131.22	-11.0	1.86	180.12	151.96	98.63	129.71	131.11	176.56	146.71	146.71
Thailand (46)	156.43	–	148.38	97.66	126.78	151.99	–	2.39	157.10	149.11	97.75	127.27	152.58	–	–	–
United Kingdom (204)	192.84	-6.0	182.92	120.39	156.29	182.92	-11.0	4.21	192.95	183.14	120.06	156.31	183.14	214.96	181.11	186.76
USA (513)	185.15	-2.5	175.68	115.59	150.06	185.15	-2.5	2.98	184.13	174.77	114.57	149.16	184.13	196.04	178.96	188.14
Americas (662)	172.95	–	164.06	107.98	140.17	143.86	–	2.89	172.10	163.35	107.09	139.42	143.13	–	–	–
Europe (708)	167.42	-0.5	158.51	104.52	135.68	149.70	-9.3	3.18	167.55	159.03	104.25	135.73	149.75	178.58	156.32	168.32
Nordic (116)	223.10	17.7	211.62	139.28	180.81	210.63	4.3	1.40	224.42	213.00	139.64	181.80	211.10	233.91	173.18	176.72
Pacific Basin (793)	159.64	10.1	151.42	99.66	129.38	104.10	-1.8	1.15	159.63	151.71	99.45	128.46	103.94	176.66	134.79	146.80
Euro-Pacific (1501)	162.81	5.0	154.43	101.64	131.95	122.01	-5.0	2.03	162.98	154.69	101.41	132.02	121.92	175.14	143.88	150.88
North America (616)	181.58	-2.6	172.24	113.36	147.16	181.18	-2.5	2.95	180.81	171.43	112.38	146.31	180.18	192.73	175.67	184.72
Europe Ex. UK (604)	150.07	1.7	142.35	93.69	121.63	129.86	-8.2	2.50	150.20	142.57	93.46	121.88	129.84	158.12	136.56	136.98
Pacific Ex. Japan (325)	243.55	-15.1	231.02	152.05	197.39	214.71	-19.6	3.04	242.02	229.71	150.59	198.06	213.40	296.21	232.59	237.30
World Ex. US (1709)	164.62	4.7	156.15	102.77	133.42	125.68	-4.8	2.03	164.84	156.46	102.57	133.53	125.52	176.65	145.58	152.04
World Ex. UK (2018)	168.25	2.7	159.58	105.04	136.36	140.07	-3.1	2.15	168.03	159.48	104.55	138.12	139.70	178.59	155.96	160.84
World Ex. Japan (1754)	182.52	-2.8	173.13	113.95	147.93	173.46	-8.2	2.97	182.04	172.79	113.27	147.47	172.86	196.20	178.34	178.38
The World Index (2222)	170.42	2.0	161.65	106.39	138.12	143.93	-4.0	2.38	170.23	181.57	105.92	137.90	143.60	180.60	158.85	163.12

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local). Please note: Amendments to indices 24/11/94 applied to Italy and related regional indices.
Constituent changes during the week ending 25/11/94: Deletions: American Cyanamid and McKesson Corp. (Both USA). Name change: Royal Belge 'A' to Royal Belge (V V P R) (Belgium).

EQUITY MARKETS: This Week

NEW YORK
Lisa Bransten

Investors fear Fed-induced recession



Investors this week will continue to wrestle with fears that the Federal Reserve may induce recession through tighter and tighter monetary policy. But economists do not expect a repeat of last week's severe falls as a good deal of the worry about higher interest rates has been absorbed by the market, at least for the moment. Such apprehensions could resurface, however, if economic news this week continues to show strong inflationary pressures in the economy.

Perhaps the most important piece of data will be Friday's employment figures. A consensus of economists expects non-farm employment for November to show an increase of about 225,000 jobs. If the figure is significantly greater, it could ignite fears that the Fed will move sooner rather than later to increase interest rates.

Investors will also get early indications of the strength of the economy through a preliminary reading of the gross domestic product due out on Wednesday and a report from the National Association of Purchasing Managers on Thursday. Market-watchers will be looking for hints of consumer spending habits during the holiday season, the strongest part of the year for retailers.

Early in the week, investors will probably be looking for bargains amid the rubble of last week's sell-off that saw the Dow Jones Industrial Average plunge more than 90 points last Tuesday, its biggest drop since last February. That fall only compounded five days of losses, which saw the Dow drop nearly 120 points overall even after a 33 point rebound on Friday.

The interest rate increases that battered the stock market had the opposite effect on bonds, which rose last week in mirror image to the decline in share prices.

Laszlo Birinyi, president of research firm Birinyi Associates, expects this week's market to be steady, but somewhat lower as investors recover from last week's slide. "The history of these declines has been that once the market stabilises and people realise that there was much more noise than significance to them, they will be back."

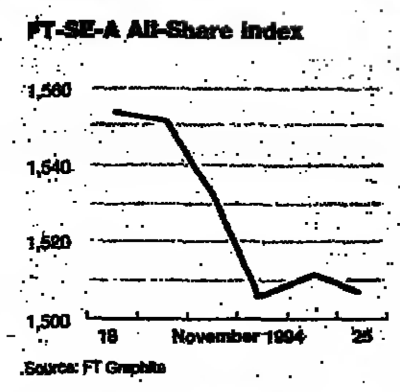
Ultimately, the Dow will return to the broad trading range it has maintained for most of the year in the 3,800-point range, he says.

One indication that there could be a steadying of the market comes from Friday's performance of cyclical stocks, which generally bear the brunt of fears about recession. Those shares bounced up further than the Dow on Friday, with Morgan Stanley's index of cyclical stocks up 1.13 per cent compared with a 0.92 per cent increase in the Dow.

Other analysts are not so optimistic about stocks. Although bope remains for a year-end rally, most are bearish about the general trend for the next few months.

LONDON
Steve Thompson

Shares likely to dance to Wall St tune



After the blitzing it received in the wake of the Thanksgiving week massacre on Wall Street, the UK equity market is in desperate need of a tonic. This could come tomorrow when Mr Kenneth Clarke delivers his second Budget to the House of Commons.

Only those fortunate (or in the current climate, unfortunate) enough to sit around the Cabinet table in 10 Downing Street, plus a handful of Mr Clarke's most trusted lieutenants, know the dark secrets of his red box.

However, if the FT-SE 100 is to make any worthwhile progress for the rest of the year, there needs to be some good news in the budget. Indications to date offer little comfort to the market. But the improving trend in public finances could enable Mr Clarke to offer some good news on the public sector borrowing requirement for 1995, which has recently been estimated at £23bn to £24bn.

One thing that would certainly upset the market would be any further reduction in the tax credit on dividends paid to non-taxpayers such as pension funds.

As UBS, the securities house, pointed out recently, a shift from the current 20 per cent to 15 per cent, for example, would lead to a fall in the FT-SE of around 2¼ per cent. But UBS says changes in this area are much less likely than a year ago and gives them only a 20 per cent chance of occurring.

Given that most market strategists and economists are expecting a broadly neutral Budget, it eeems likely that the UK equity market will again dance to Wall Street's tune.

After recent experience that could spell danger, Goldman Sachs strategist Sushil Wadhwani points out that the recent weakness in global equity markets largely derives from fears that the US economy may have a "hard landing". He says the Fed is "likely to remain aggressive" and expects a further tightening of at least another 100 basis points between now and March, warning also of the "potential threat of mutual fund outflows".

Mr John Reynolds, global strategist at NatWest Securities, warns that "should the [US] rate rises currently implied in the futures markets become reality, the outlook for global financial markets would look decidedly uncomfortable".

He says the futures market is already discounting a further 200 basis points rise, but takes the view that the US economy "is much closer to slower growth than many believe". Let us hope he is right.

The week brings a batch of important company results. A prop to a faltering equity market recently has been the dividend flow. Dividends announced recently mostly continue to surprise on the upside. One of the UK's biggest water companies, Severn Trent reports this week and should easily achieve a double-digit dividend increase.

International offerings

Israeli groups woo London and New York investors

The efforts of Israeli companies to raise capital from international investors – highlighted by this week's roadshows for Tadiran, tha electronics concern – are poised to move into a higher gear.

Tadiran, one of more than a dozen technology or export-oriented Israeli enterprises to come to the international markets in the last couple of years, hopes to raise up to $80m through a simultaneous offer of shares in New York and London, and a listing in Tel Aviv.

However, following progress this year towards a peace settlement in the region, a wider range of Israeli companies are coming to the market seeking to raise capital. Mr Niel Siebag-Montefiore, corporate finance director at BZW, said recently that European institutional investors were increasingly willing to buy Israeli stock.

"Three years ago, Israel was still a financial pariah in Europe but there has been a huge change since and investors now accept Israel as just another country suitabla for foreign investment," he said.

A banker with Lehman Brotbers, which has been involved in 18 deals since 1991 and now has an office in Tel Aviv, says international investors have begun to regard Israel as an emerging market.

At the same time, political progress should end Israel's international isolation, opening up new markets for its exporters as well as closer economic integration with its neighbours.

"Investors believe Israel will become a regional centre," he says.

In total Israeli companies are expected to seek to raise up to $2bn next year.

● In the biggest deal, Bezeq, the state-owned telecommunications company, is expected to sell 25 per cent of its shares to raise about $700m. The offering, which will cut the government'e stake to 51 per cent, will be made in New York, London, Tel Aviv and possibly a market in the Far East. Morgan Stanley has been appointed to advise on the sale.

● The government also wants to sell 22 per cent of Israel Chemicals, the country's leading chemical and fartiliser company, through a global offering in February 1995. The sale will reduce the govarnment stake to 28 per cent and is expected be worth $190m. Wertheim Schroeder is advising on the privatisation and Lehman Brothers will be the global co-ordinator.

● A third serious candidate for privatisation by global offering in 1995 is El Al, the state-owned airline. The government plans to sell 51 per cent of the company worth $75m-$200m. BZW is expected to advise on the sale.

● Large private companies seeking a listing include Africa Israel, a leading investment company with interests in property, insurance and tourism, which plans to raise $150m–$200m in New York, London and Frankfurt. Morgan Stanley has been appointed global co-ordinator.

● Koor Indnstries, Israel's largest industrial group, expects to reduce its holding in Tadiran to 52 per cent. In addition, Koor expects to offer a large tranche of shares for sale on international markets hy mid-1995. The Histadrut, Israel's trades union federation, plans to sell the 22 per cent stake in Koor owned by its Hevrat Haovidim holding company to repay heavy debts.

● Zim Israel Navigation, which ranks among tha world's 10 largest container shipping companias, also expects to make a global offering in 1995.

● The government is also considering the possibility of selling shares in the big two banks – Bank Hapoalim and Bank Leumi.

Julian Ozanne and Richard Lapper

OTHER MARKETS

MILAN

Trade in Italian equity futures begins today but analysts expect the contract to smoulder, rather than explode into life, on its debut. The Fib-30 contract, based on Italy'e 30 most traded stocks grouped in the revamped Mib-30 index, is a vital weapon in Milan's battle to become a thoroughly modern market and is expected to provide a welcome boost to liquidity – eventually.

However, the anticipated benefits will be slow in arriving, due to a mix of seasonal and technical factors, with a delay in moving stocks to cash settlement likely to restrain tha system's use.

One analyst said the contracts were arriving at a time when volumes on the bourse were already very low.

Dealers added that many houses will not be able to use the new instruments, even if they wanted to, with half of the 99 work stations requested expected to be out of action today because full communications networks are not yet in place.

Stock exchange officials have predicted that the contract will draw daily trade of around L400bn, but most analysts said that was likely to be at the top end of turnover in the opening weeks, with trade in the underlying shares stumbling to just L353bn last Thursday.

AMSTERDAM

The Dutch market, which had a difficult time at the start of last week under Wall Street's influence, is expected to be a beneficiary of the Fed'e rate rise and the better than expected M3 figures.

On the corporate front, Nedlloyd's third-quarter figures are due Wednesday and Amev's nine-month figures on Thursday.

Looking at the longer term, the Amsterdam market has been put on the overweight list by European strategists at Merrill Lynch, which said that relative to other European markets, p/e valuations appeared to be attractive. Company earnings were seen to be growing strongly in 1994, and there was no reason why this upward trend would not continue, especially as inflation was forecast to remain "subdued".

However, Merrill warned, while there was nothing in particular to concern investors there was also little to get excited about, and expectations of a growth in earnings had largely been discounted.

OSLO

Norway goes to the polls today to decide on membership of the European Union, but the market has its supporters, even if, as last week's increasingly close polls suggested, the electorate rejects the idea. Goldman Sachs forecasts that share prices could rise by 15 to 20 per cent in the coming year, even with a "no" vote.

"If Norway were to join the EU, we think the market could offer a somewhat higher return of 20 to 25 per cent," the investment bank said. Its favoured stocks include Norske Skog, Norsk Hydro, Bergesen, Kvaerner and Orkla.

"Given relatively strong fundamentals and attractive relative valuation, we regard any significant downturn in the near future as a good buying opportunity," Goldman said. It based its stance on favourable macroeconomic prospects and a strong earnings growth outlook.

FRANKFURT

Analysts are looking for a stronger performance from equities, with support coming from the bond market and further interest in cyclicals.

UBS expects that after last week's good figures from Thyssen and BASF, the market will react positively to strong third-quarter figures from Bayer today and Hoechst on Wednesday. This should raise interest not only in chemicals but also in other cyclicals, such as capital goods.

October industrial production figures are due and James Capel says the strength of orders in September points to a 0.5 per cent month-on-month rise.

HONG KONG

The market is set for another week dancing to the US tune, where the overnight sell-offs on Wall Street sent the Hang Seng index plunging last Tuesday and Wednesday and left the market 8.2 per cent down on the week, *writes Louise Lucas.*

US data will be keenly scrutinised by Hong Kong investors for signals on the strength of the US economy, and any leads that this will provide for bond and equity markets.

Domestically, there is little expected this week to influence investors and trading is likely to concentrate again on blue chips.

The property sector, under pressure since the local interest rate increase the week before last, will continue to be viewed warily.

TOKYO

With the results season in its last week, and very few companies reporting, investors will be focused on overseas stock market movements and the currency market. A further fall in the yen could prompt further profit-taking by overseas investors, depressing the Nikkei index, while traders expect buying of shares to be limited to public postal and welfare funds.

Compiled by Michael Morgan

EMERGING MARKETS: This Week

The Emerging Investor / **Nicholas Denton**

A surge of funds to eastern Europe

Fund managers have in the past fortnight raised $300m for investment in the emerging markets of eastern Europe in the largest burst of fundraising since the fall of communism five years ago.

Shares in the Baring group's $180m First NIS Regional Fund and Pictet's $56m First Russian Frontiers Trust begin trading this week. Invesco'e East Europe Development Fund has also tapped the markets, for a $75m boost. Nor are the latest efforts the last: CS First Boston and Edmond de Rothschild Securities are designing a Czech Value Fund to invest in undervalued domestic Czech voucher funds.

And the regional and country funds are the most public face of portfolio investment into eastern Europe. General emerging markets funds managed by Templeton, Genesis, and others are also committing investment although thay make no disclosed allocation to the former communist bloc.

Even soma hedge funds, burnt by the bond markets, are also turning for high returns to east European investments. Quantum, the fund run by Mr George Soros, the salf-confessed speculator, bought a sharaholding in Fotex, the Hungarian retail company. Mr Soros, wbo has set up charitable foundations in eastern Europe, recently put aside his concern abont conflicts of interest and allowed his funds to invest in the region.

Altogether the inflow of portfolio investment probably now exceeds that of foreign direct investment. International investment banks like CS First Boston have found to their surprise that securities trading that arises from financial investment has rapidly overtaken fees earned from mergers and acquisitions advice as a source of revenue.

This record burst of activity is all the more striking for its timing. Rising interest rates have drawn investors ont of equity and especially out of marginal markets, which is what east European bourses still for the moment remain.

The three established east European stock markets, Warsaw, Prague and Budapest, are all down on their peaks earlier this year. The Prague index fell 34 per cent between its introduction in April and October. Warsaw share prices, which rose tha fastest, have halved since March.

The two largeet funds launchad during eastern Europe's stock market boom, CSFB's $200m Central European Growth Fund and Baring's $120m Emerging Europe Trust, have both suffered declines in net asset valua. They fell victim, an emerging markets analyst says, to the general tendency for managers to raise cash during a bull market and invest into the market as it drops back.

Ten best performing stocks				
Stock	Country	Friday 25/11/94	Week on week change $	%
Hualon Tiejran	Taiwan	0.8999	0.0941	11.67
Philippine National Bank	Philippines	13.4737	0.9890	7.92
Far Eastern Textile	Taiwan	1.5100	0.1036	7.37
Cia De Aceros Del Pacifico	Chile	4.6182	0.2824	6.51
Vitro	Mexico	6.8185	0.3590	5.56
Alpha Leasing	Greece	24.0082	1.2524	5.50
Bagley	Argentina	3.9992	0.2000	5.26
Koc Yatirim	Turkey	0.8058	0.0395	5.16
Banco Wiese	Peru	4.9507	0.2405	5.11
Formosa Chemical & Fibre	Taiwan	1.4490	0.0692	5.01

Source: Baring Securities

Nor have funds with a longer track record all performed so much better. John Govett's Hungarian Investment Company, which raised $100m in 1990, now has a market capitalisation of $71.5m.

In as unpredictahle a region as eastern Europe there is a resounding investment success for every failure. Invesco's EEDF, headed by Mr Roy Bracher, has shown compound annual growth in NAV per share of 41.5 per cent, a far better record than any western investment fund.

Mr Bracher compares his approach with that of Warren Buffett, the legendary US long-term investor. "We invest in companies that we know and like," he says. Mr Bracher prefers low-tech industries like chocolate and ice-cream making. EEDF leans towards unquoted investments and takes a relatively long time horizon – two to five years.

The etrategy, or at least EEDF's performance, was enough to persuade investors to commit another $75m to the fund. It may also show investors in general that it is possible to make money in eastern Europe.

Equity in Poland, the Czech Republic and Hungary, also looks fundamentally more attractive than it did. The price correction has killed the prospect of dramatic and immediate capital gain, and has made fundamental valua more attractive. But, says Ms Nancy Curtin, head of emerging European investments at Baring Asset Management: "It has eradicated a lot of the frothiness in the markets."

But the strongest new draw of all is Russia. It is no accident that two of the three new funds are aimed at the former Soviet Union, and EEDF also says it sees good value in Russian companies.

The market has opened up tremendously in the past few months. Mass privatisation has put about 80 per cent of the corporate sector into private hands. Most of these companies are an investor's nightmare, but a few – like Lukoil, the oil company, and Gazprom, the gas producer – are what one fund manager calls "world-class companies".

Oil assets were privatised at about 4 US cents a barrel of proven reserves. That measure has since tripled, but still stands far short of the $7 that a barrel of oil in the ground would cost if an investor bought a US oil company. A telephone access line in Hungary, another former communist country, commands a stock market valuation 10 times that of a Russian one.

Fund managers believe that is cheap, even after factoring in Russia's particular risks – the sheer opacity of the companies and the burden upon them of providing social services. "All bnt nationalisation has been discounted in these market values," says Ms Curtin.

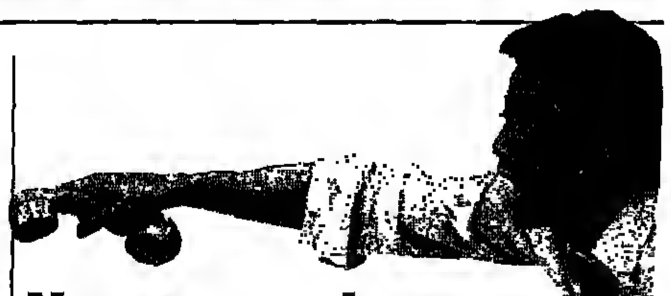
The fear of shares simply disappearing from registers and other horrors of custody and settlement are enough to put off all but the hardiest or foolhardiest of investors. One Russian investor recently accused an aluminium company of erasing $300m worth of its shares.

But Chase Manhattan and other international banks are moving to set up custodial services which at least approach the standards required by western investors. Moreover, Mr Anatoly Chubais, the new deputy prime minister for the economy, bas put securities reform at the top of his agenda.

The discounts should narrow as custody and settlement improve, and Russia's equity market amerges from its infancy. Emerging markets funds hope they will gain as valuations in east and west converge.

But ease of investing is a mixed blessing for these specialist entities. Their own backers are pension funds, unprepared or legally prohibited from investing in markets without proper cnstody. Emerging markets funds are indispensable intermediaries.

Already some of the largest Russian banks and natural resources extractors like Gazprom, the gas company, are planning issues of global depository receipts.



News round-up

■ Moscow

The Moscow Commodities Exchange plans to start trading rouble-denominated white sugar futures today, *Reuter reports.*

Trading will be for standard one-tonne contracts with January the first delivery month. There was no starting price set for the contract.

■ Bahrain

Bahrain plans to develop a bond market to provide financing for the industrial sector.

Two companies heve so far issued bonds this year. The bond market would serve the region as part of overall plans to develop the exchange.

Other steps will include urging the private sector to set up new companies, encouraging private companies to go public and speeding up the process for cross-listing of companies.

The BSE will also encourage commercial banks to extend banking facilities to share investment. An average of 6m shares worth BD2m ($5.3m) a week are traded.

Tha volume of shares traded on the BSE dropped by 4.7 per cent in the first half of 1994 to 155m shares worth $98.1m from 168m shares worth $106.1m.

■ Peru

The Lima stock market has been rated by a World Bank study as the second most profitable emerging market in the world between January and October, rising by nearly 60 per cent in dollar terms.

Only tha Brazilian stock market surpassed it, rising by 77.1 per cent in dollar terms in the first 10 months.

The Lima stock market grew by 88.7 per cent in dollar terms in 1993 and 122.4 per cent in dollar terms in 1994, the World Bank added.

● *Edited by John Pitt. Further coverage of emerging markets appears daily on the World Stock Markets page*

Baring Securities emerging markets indices

Index	25/11/94	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (301)	170.00	-7.24	-4.09	-11.18	-6.18	+1.59	+0.94
Latin America							
Argentina (20)	93.62	-4.32	-4.41	-14.06	-13.06	-21.76	-18.86
Brazil (21)	213.87	-19.94	-8.53	+4.57	+2.18	74.22	+53.15
Chile (12)	215.02	-7.25	-3.26	-13.45	-5.89	+67.48	+45.74
Mexico (25)	134.15	-1.70	-1.25	-14.72	-9.89	-27.12	-16.82
Peru(16)	867.78	-35.20	-3.90	-41.92	-4.61	+291.69	+50.63
Latin America (94)	158.64	-7.63	-4.59	-9.66	-5.74	+9.40	+6.30
Europe							
Greece (16)	81.37	-0.44	-0.53	-4.46	-5.19	-1.73	-2.08
Portugal (18)	119.87	-0.93	-0.77	-4.37	-3.52	+7.75	+6.91
Turkey (21)	80.75	-1.21	-1.47	+3.67	+4.76	-80.96	-50.07
Europe (55)	98.42	-0.82	-0.82	-2.78	-2.75	-13.82	-12.31
Asia							
Indonesia (26)	141.96	-6.08	-4.11	-11.41	-7.44	-29.08	-17.00
Korea (23)	155.25	-5.40	-3.36	-3.74	-2.35	+45.54	+41.52
Malaysia (23)	216.06	-9.48	-4.20	-18.35	-7.83	-36.99	-14.62
Pakistan (11)	106.41	-1.75	-1.61	-7.21	-6.35	-5.28	-4.73
Philippines (12)	281.53	-11.97	-4.08	-21.68	-7.14	-40.94	-12.70
Thailand (25)	248.46	-18.91	-7.07	-27.58	-9.99	-15.10	-5.73
Taiwan (32)	166.65	+1.91	+1.18	-9.63	-5.47	+12.84	+8.36
Asia (152)	211.17	-8.33	-3.79	-16.32	-7.18	-10.25	-4.63

All indices in $ terms, January 7th 1992=100. Source: Baring Securities

CURRENCIES
Philip Gawith

Sterling the focus in budget week

Sterling will be a focus of market attention this week, with the political tribulations of Mr John Major and the presentation of the 1995-96 budget on Tuesday providing a focus for traders.

Although the chances of the government falling today over a vote of confidence on the European Union finance bill appear remote, analysts say that last week's row over the EU has placed a lid on sterling.

A further question mark hanging over the pound will only be removed on Wednesday when it emerges whether or not Mr Major will face a leadership challenge this year.

Tomorrow's budget is not expected to have much impact on sterling. Mr Kenneth Clarke, the chancellor, is widely expected to announce a substantial cut in spending totals, while maintaining revenue neutrality. Mr Neil MacKinnon, chief economist at Citibank, said sterling appeared to ba comfortable in the DM2.40-45 bracket.

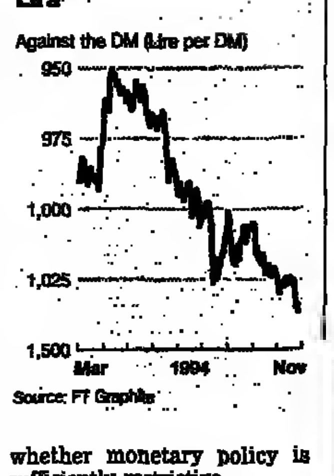
Two other political evants which will occupy markets will be tha outcome of today's referendum in Norway on EU membership, and the ongoing tribulations of Mr Silvio Berlusconi, the Italian prime minister.

Contrary to the position in Denmark, Sweden and Finland – which have all voted in favour of EU membership – opinion polls in Norway hava always shown a majority of voters against the EU. Although the vote promises to be close, analysts say the outcome may not have much bearing, other than in the short term, on the krone.

Mr MacKinnon said volume analysis of Citibank clients suggested that most of them anyway held long D-Mark positions against the krone, suggesting that the downside from a No vote would be limited. A Yes vote migbt bring short-term appreciation, but Mr MacKinnon said: "As we saw in Sweden, a Yes vote doesn't guarantee you currency appreciation."

Last Friday, the lira hit a record low of L1,038.25 against the D-Mark. Continued uncertainty about the future of Mr Berlusconi's government, and the impact this will have on the budget, have led some analysts to predict that the lira will weaken to L1,050 or, in extreme cases, to L1,100.

After tbe Thanksgiving break, dollar watchers will this week have some fresh data to focus on, principally in the form of November's jobs report. Sentiment towards the dollar has improved appreciably recently, but it is sensitive to market perceptions about whether monetary policy is sufficiently restrictive.



WORLD BOND MARKETS: This Week

NEW YORK — Richard Waters

Can the Treasury bond market hang on to last week's gains in the face of evidence that the US economy continues to grow strongly? The first test comes later this week, with the National Association of Purchasing Management index on Thursday and November employment figures on Friday.

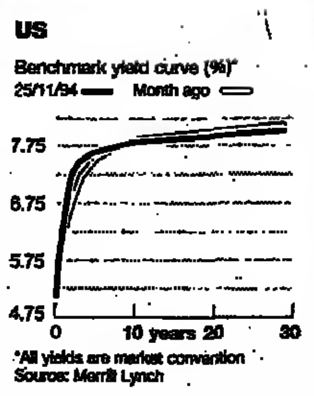
An unexpectedly high NAPM reading a month ago set the stage for the Federal Reserve's last interest rate rise. This month, the index is likely to match or even exceed the 59.7 it hit then.

The real news, though, may not be in the headline number but in the prices paid component of the index, where future inflation may lurk (this hit 79.9 in October and is expected to climb further).

Non-farm payroll growth, meanwhile, is generally expected to have jumped again after October's brief lull, with job gains of 250,000 or more in November.

These figures will be preceded on Wednesday by the third-quarter GDP report: at anything from 3 to 3.4 per cent, the growth rate may have moderated from the second quarter but is still above the Fed's target rate.

Of course, the bond market may shrug off such news, confirming a newly-discovered confidence in the Fed's determination to stamp on inflation. But that would represent a real change of heart from the rest of this year.



*All yields are market convention
Source: Merrill Lynch

LONDON — Philip Coggan

All eyes in the gilts market will be on Mr Kenneth Clarke, the chancellor, as he delivers the Budget tomorrow. Most budgets have a theme, such as Mr John Major's "Budget for savers" in 1990, and this year's effort looks likely to to be, whether or not it is spelt out in public, a budget for gilts.

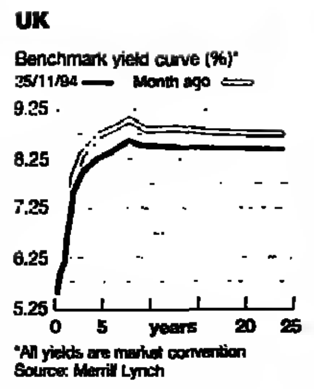
The chancellor is expected to take the benefit of reduced public spending totals, the result of lower inflation and higher growth, in the form of a smaller public sector borrowing requirement.

Having thus pleased the gilts market, he can concentrate on pleasing the electorate with tax cuts in his 1995 and 1996 Budgets.

The consensus forecast is that he will knock £5bn off the 1995–96 control total for public spending but Mr Nigel Richardson, head of bond research at Yamaichi International (Europe), thinks the cut could be £7bn.

The market is also expecting to see moves to allow an open repo market, which would improve liquidity. One step which might be announced is that income on gilts will be paid gross of tax in future.

Gilts have been buoyant in the run-up to the Budget and were boosted last week as investors appeared to switch from shares to bonds in the face of Wall Street's weakness. The Bank of England will hope the Budget is well received; it is revealing details of its latest auction stock on Wednesday.



*All yields are market convention
Source: Merrill Lynch

FRANKFURT — Andrew Fisher

The German bond market put on a show of strength last week after the more favourable inflation figures and lower than expected money supply growth. But some economists reckon this upturn was misplaced.

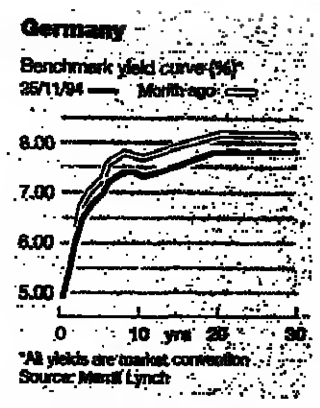
"We can detect precious little in the recent data that could serve as a justification of the bond market rally these last days," said Mr Adolf Rosenstock at the Industrial Bank of Japan's Frankfurt office.

"We interpret it instead as a spill-over from the rally in the US bond market, which we consider a bear market still."

It came as no surprise that the Bundesbank left interest rates unchanged on Thursday. The bank is waiting for a more marked slowdown in M3 growth and inflation and stronger evidence of wage moderation before deciding whether to opt for a final discount and Lombard rate cut in the present economic cycle.

"The Bundesbank could have some reason to cut rates," reckons Mr Norbert Braem of Barclays de Zoete Wedd. Key interest rates have not reached the lows seen in previous cycles.

"The Bundesbank will be ready to support the economy to some extent," he added. There is no reason for this now, he says, but there could be in 1995 if economic recovery stalls because of increased D-Mark strength or sluggish private consumption.



*All yields are market convention
Source: Merrill Lynch

TOKYO — Emiko Terazono

Weakness on the Tokyo stock market last week prompted hopes of lower short-term interest rates and the 10-year benchmark bond fell almost 10 basis points to close at 4.64 per cent on Friday.

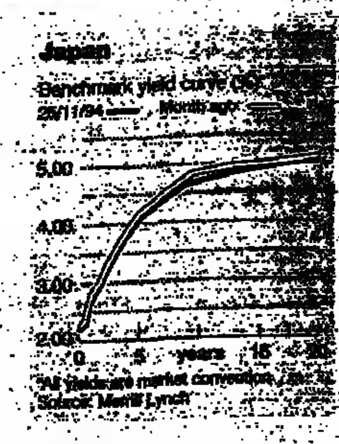
While the Bank of Japan is unlikely to lower short-term rates to support share prices, further weakness in the stock market will boost confidence in the bond market. Economic indicators this week should also reinforce the view that bond yields have discounted too much of an economic rebound.

"Data released over the remaining weeks of 1994 will continue to bolster market sentiment," forecasts Barclays de Zoete Wedd in Tokyo. It notes that yields in the secondary market on Industrial Bank of Japan debentures have already started declining.

While industrial production figures for October, to be released on Wednesday, may show a slight month-on-month rise, labour figures for the same month and retail sales data from large stores, to be released on Tuesday, are likely to indicate weak support for the economy by consumers.

The unemployment rate is expected to remain unchanged from September at 3 per cent, while retail sales are expected to fall by around 2.5 per cent.

The small enterprise index, which shows sentiment among small business owners, is also expected to be weak.



*All yields are market convention
Source: Merrill Lynch

Syndicated loans

Borrowers cash in on tumbling prices

Underwriters for the jumbo $5bn loan for the Kingdom of Sweden should be lined up this week, and the deal will then go out to syndication.

To judge by recent events in the syndicated loans market, it will receive an enthusiastic response, even at the keen price of 8 basis points over London interbank offered rate (Libor), and should be signed by Christmas.

Sweden is the latest beneficiary of tumbling prices in the lending market, where margins have fallen by up to 50 per cent in the past year. It has moved early to refinance two outstanding loans, both maturing next year and costing 15 to 25 basis points over Libor.

Ms Christine Holm of the Swedish National Debt Office said: "Pricing in loans has come down and that on bonds has increased since the beginning of the year. For us it is an excellent opportunity as it gives us cheaper finance than we have outstanding."

International borrowers are not alone in exploiting current low pricing. East Midlands Electricity, the UK power utility, moved early and asked Chemical Bank to arrange the refinancing for a loan maturing next September, and obtained a price of 15 basis points over Libor for the £350m, five-year deal.

Although the low price raised eyebrows in the syndicated loans market, in the end the deal was oversubscribed but not increased.

Mrs Lesley Hamer, treasurer of East Midlands, said: "We were oversubscribed a fair amount and had to scale back. Obviously, there are banks prepared to lend at that level, and we are very pleased with the group of banks we have got." She said there are 13 banks in the loan, "three European, two US, and eight Japanese".

East Midlands may have set a benchmark with the deal, which replaced a loan taken ont at 15 basis points over Libor in September 1990, just days before the Iraqi invasion of Kuwait sent pricing up.

Intense competition among banks for assets has since driven pricing back down, which in turn has sparked a rush to the loans market.

This has been charted by the Bank for International Settlements' latest quarterly report on financial market trends*.

The BIS report details the seemingly inexorable rise of the syndicated loan. While rising from $136.7bn in 1991 to $221bn in both 1992 and 1993 and $177.6bn in the first three-quarters of this year, syndicated loans remain behind bonds but are increasing in popularity as bond markets become more turbulent.

Globally, bond issuance remains larger than loans, with $333bn of completed bond deals in 1992, $438bn in 1993 and $309.7bn in the first nine months of this year.

More specifically, in the US and the UK, syndicated loans remain streets ahead of bonds. The total of international bonds by UK and US issuers was the equivalent of $53bn in 1992, $59bn in 1993 and $51.8bn for the first three-quarters of this year. In the US and the UK, loans were the equivalent of $117bn in 1992, $105bn in all of 1993 and rose to $121.5bn in the first three-quarters of 1994.

The increasing popularity of loans stems partly from the fall in the price of bonds and the consequent rise in the interest paid on them, or their yields. Earlier this year, Lloyds Bank brought a loan to the market for 3i, the UK investment group, at close to the pricing of 3i sterling bond issues.

As well as low pricing, borrowers are also attracted by the flexibility of loans.

Much of the financing for the Foinaven oilfield in the Atlantic off the Shetland and Orkney islands will be arranged through a $250m syndicated loan, being arranged by Chase and Chemical Bank, which have agreed to underwrite it.

The loan will finance the production of a floating production, storage and offloading (FPSO) system. Bankers met on Thursday to discuss the loan, which is expected to be for seven years priced at some 100 basis points over Libor.

Mr Kaare Gisvold, president of Golar-Nor, the Norwegian company behind the FPSO, said: "Apart from pricing, it is flexibility that makes bank funding more attractive for this kind of thing."

However, when it comes to choice between a bond and a syndicated loan, pricing is undoubtedly behind the return to favour of lending.

One driving force behind the fall in pricing is the presence in the market of Japanese banks, which have turned aggressively to overseas lending in the face of a weak domestic market.

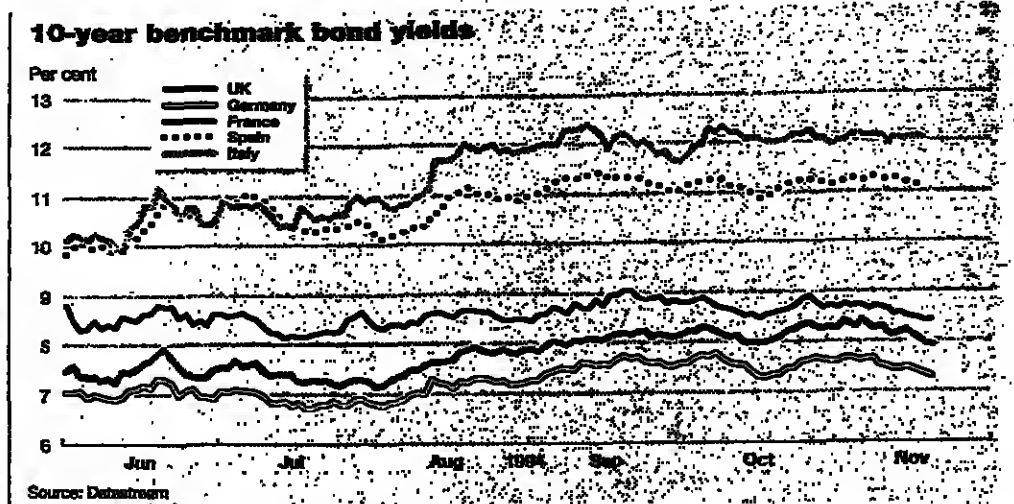
It may be no coincidence that eight Japanese banks are in the syndicate that provided the keenly-priced loan to East Midlands but to judge from the current crop of bank results from Tokyo, Japanese banks seem to be enduring a grim period.

Rival syndicated loans teams may be searching Japanese banks' accounts for signs that trouble at home will lead to less of an appetite for foreign adventures. Whether company treasurers will take the same attitude is debatable.

Martin Brice

* *International Banking and Financial Market Developments, by the Bank for International Settlements, Basle.*

10-year benchmark bond yields



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	4.75	1.75	4.50	6.40	7.50	5.75
Overnight	5.44	2.22	4.96	5.26	8.12	4.38
Three month	5.48	2.31	5.10	5.48	8.87	5.96
One year	6.68	2.65	5.50	6.08	10.00	7.18
Five year	7.85	3.91	[illegible]	7.52	12.08	8.28
Ten year	7.80	4.64	7.28	7.95	12.06	8.44

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	98-18	98-31	+0-06	99-03	98-16	460,249	323,087
Mar	97-30	98-12	+0-08	98-16	97-29	24,464	105,886
Jun	97-15	97-27	+0-07	97-30	97-13	1,950	12,665

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Pool purchase price £/MWh (Provisional Price for Trading on 27.11.94)	Pool purchase price £/MWh (Final Prices for Trading on 30.10.94)	Pool selling price £/MWh (Final Prices for Trading on 30.10.94)
0030	9.25	10.02	10.02
0100	9.02	31.28	35.27
0130	9.02	31.28	35.27
0200	9.02	31.28	35.27
0230	9.24	17.84	21.82
0300	9.20	9.46	13.45
0330	9.02	9.46	13.46
0400	8.18	9.19	9.19
0430	8.10	8.11	8.11
0500	8.10	8.10	8.10
0530	8.12	8.25	8.25
0600	8.11	8.22	8.22
0630	8.11	8.18	8.18
0700	8.10	8.19	8.19
0730	8.10	8.16	8.19
0800	8.10	8.16	8.16
0830	8.12	8.16	8.10
0900	9.08	9.22	9.22
0930	9.21	9.55	13.54
1000	9.03	20.11	24.10
1030	9.03	19.47	23.45
1100	9.03	27.00	30.99
1130	24.23	30.51	34.50
1200	32.46	46.51	50.50
1230	36.15	46.51	50.50
1300	36.15	46.51	50.50
1330	20.15	46.51	50.50
1400	24.54	27.00	30.99
1430	24.54	23.45	27.44
1500	24.54	10.06	10.06
1530	9.25	10.06	10.06
1600	24.54	20.11	24.10
1630	36.26	32.89	36.88
1700	36.94	35.42	39.41
1730	47.00	46.09	50.08
1800	47.00	46.09	50.08
1830	40.06	46.09	50.08
1900	40.06	36.54	40.53
1930	36.26	36.54	40.53
2000	36.26	35.42	39.41
2030	36.26	33.38	37.37
2100	32.79	33.38	37.37
2130	32.79	26.20	30.19
2200	24.54	26.20	30.19
2230	9.03	19.99	23.98
2300	9.25	18.72	22.71
2330	9.21	10.02	10.02
2400	8.20	9.22	9.22

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.89/MWh becomes 1.689p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction [illegible]
©Energy Settlements and Information Services Limited

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Pool purchase price £/MWh (Provisional Price for Trading on 28.11.94)	Pool purchase price £/MWh (Final Prices for Trading on 31.10.94)	Pool selling price £/MWh (Final Prices for Trading on 31.10.94)
0030	9.21	9.21	9.21
0100	8.98	18.36	21.85
0130	9.03	18.36	21.85
0200	9.03	18.36	21.85
0230	9.22	18.36	21.85
0300	9.20	18.36	21.85
0330	8.98	18.36	21.85
0400	9.01	9.56	13.04
0430	9.01	9.56	13.04
0500	9.01	9.55	13.04
0530	8.20	9.19	9.19
0600	9.01	9.22	9.22
0630	9.21	10.27	10.27
0700	10.09	29.68	33.17
0730	46.05	28.34	32.83
0800	66.57	33.85	37.35
0830	66.36	33.89	37.38
0900	56.66	37.36	40.91
0930	73.20	35.09	38.72
1000	73.20	39.38	43.07
1030	32.13	39.51	43.24
1100	27.08	39.62	43.36
1130	46.14	42.36	46.12
1200	46.14	46.06	49.01
1230	43.56	44.97	48.90
1300	43.54	44.58	48.41
1330	43.54	37.70	41.35
1400	43.53	37.49	41.08
1430	36.60	37.37	40.93
1500	35.60	34.91	38.46
1530	35.61	18.31	18.31
1600	36.40	20.41	20.41
1630	87.77	110.33	120.12
1700	120.26	164.89	166.95
1730	147.79	190.28	213.63
1800	127.84	161.14	202.60
1830	76.60	86.09	100.83
1900	44.45	58.70	65.69
1930	41.20	49.68	54.43
2000	36.96	46.53	50.36
2030	38.78	43.11	46.65
2100	34.25	38.31	41.81
2130	32.20	38.29	41.79
2200	35.82	33.62	37.11
2230	32.20	33.62	37.11
2300	26.35	29.63	33.13
2330	9.28	10.21	10.21
2400	8.20	9.22	9.22

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.89/MWh becomes 1.689p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction [illegible]
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Government bonds

Gilt dealers looking for a tight Budget

At a time when children are busy compiling their wish-lists for Santa Claus, gilt market participants have drawn up their own wish-list for Mr Kenneth Clarke, chancellor of the exchequer, ahead of tomorrow's UK Budget.

To be sure, gilt analysts' and traders' hopes for a market-friendly Budget, containing spending cuts and a reduction in the public-sector borrowing requirement (PSBR), are high.

"True to the gilt market's hair-shirt mentality, the feeling is: the tighter the Budget, the better," says Mr John Shepperd, chief economist at Yamaichi International. "Most people are looking for fairly severe fiscal tightening on the tax and spending front."

On the revenue side, the market is keen to see the tax increases announced last year implemented in April. The planned measures inclnde a cut in the tax rate for married couples' allowances and mortgage interest relief to 15 per cent from 20 per cent, and an increase in the value-added tax on household fuel and power to 17½ per cent from 8 per cent.

Observers also hope Mr Clarke will rule out any tax cuts before spending and government borrowing are brought further under control.

Meanwhile, the combination of faster economic growth and lower inflation are likely to cause a drop in spending.

This summer, official PSBR forecasts for this year and next were cut by £2bn on account of the rise in tax revenue following the economic upswing.

Mr Ifty Islam, an economist at Merrill Lynch, estimates that the Treasury will be able to cut the control total (public spending excluding cyclical social security and debt interest payments) "by at least a further £3bn this year and around £4bn in the financial year 1995–96 on the back of reduced assumptions on inflation".

In addition, there is widespread talk that a cut in the "contingency reserve" – a sort of war chest to cover unforeseen expenditures – could sharply reduce government spending. The reserve has been set at £7bn for 1995-96 and at £10.5bn for the following year.

Indeed, some argue that the reserve has outlived its usefulness and should be abolished altogether, sending a clear warning to government departments not to overshoot their spending limits.

Mr Simon Briscoe, an analyst at S.G. Warburg, favours such a move: "When you look at the record of the last few years, the extra money has rarely been needed."

Reducing or abolishing the reserve could take a large chunk out of the PSBR, which would cheer the gilt market considerably.

As a result of spending cuts and rising tax revenne, the current year's PSBR forecast, which was cut this summer to £36bn from the original £38bn, is expected to be revised downward further, some say as low as £31bn. The 1995-96 PSBR forecast is expected to be lowered to around £20bn from the current £28bn estimate.

Other specifically gilt-market related goodies might include an announcement of a fully-fledged market for gilt repurchase agreements, or repos, and a move to pay gilt coupons gross of withholding tax.

The two are closely linked, for many say that a move to gross dividend payments would facilitate the establishment of an efficient repo market, which in turn would boost market liquidity.

Gross coupon payments could also increase gilts' appeal to overseas investors. Currently, only some gilts are issued free of tax to residents abroad (Fotra); if non-residents buy non-Fotra gilts, they have to go through a time-consuming procedure of reclaiming the 25 per cent withholding tax.

A move to gross coupon payment would open up the whole market, rather than just a segment of it, to overseas investors.

However, any promise to establish a repo market is unlikely to be translated into immediate action. "It would take some time – possibly up to a year – until the market was operational," says Mr Shepperd.

Any measures which will keep a lid on inflationary pressures will also be warmly welcomed.

"The government should not shoot itself in the foot by raising taxes to such an extent as to boost inflation," warns Mr Briscoe.

Amid concerns over the inflationary effect of rising petrol duties, there has been market talk that some normal increases in drinks duties may not be implemented.

Although a tight Budget would favour gilts over the longer term, it may not provide much near-term support.

In part, that's because much of the good news – if it materialises – has already been priced into gilts, which have put on a strong performance in recent weeks. Indeed, some warn that such a Budget could prompt a "buy on the rumour, sell on the news" response.

Moreover, the political risks attached to gilts will remain, even if – as expected – Prime Minister John Major wins today's parliamentary vote over higher contributions to the European Union. The December 7 gilt auction, which was announced on Friday afternoon, is also likely to cap any Budget-induced rally.

The biggest risk, however, would be if a tight Budget this year were seen as a prelude to a loose one next year.

"If fiscal prudence is a tactical ploy to set up a pre-election windfall, rather than a genuine long-term attempt to cut borrowing, the response is at best going to be a half-hearted two cheers," cautions Mr Shepperd.

Conner Middelmann

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Toyota Motor Credit Corp.	250	Dec.1997	7.75	99.8325R	7.815	+14(7⅞%-97)	Paribas Capital Markets
BankAmerica Corp.	200	Dec.1999	8.375	99.555R	8.488	+50(WI 5yr)	Salomon Brothers Intl.
Unibanco Leasing	150	Nov.1997	11⅛#	99.75R	11.23	+370(7⅞%-97)	CS First Boston
UBS Finance(d)	100	Dec.1996	7.00	99.35R	7.361	flat(6⅞%-96)	UBS
SBC Finance Cayman Is.(a)	100	Dec.1996	7.125	99.53R	7.213	+3(6⅞%-96)	Swiss Bank Corp.
BNG	200	Dec.1996	7.50	99.971R	7.516	+8(WI 2yr)	JP Morgan Securities
Bayerische Landesbank	300	Dec.1997	7.75	99.835R	7.814	+15(7⅞%-97)	Lehman Brothers Intl.
Challenge Bank‡	250	Dec.1997	(b)	99.86R	-	-	CSFB/ SG Warburg
Urban Mtge.Bank of Sweden‡	200	Sep.1998	(l)	99.8975	-	-	Nomura International
Leasing Bank of Boston(s)★	50	Oct.1997	10.50#	99.2775R	10.79	+325(7⅞%-97)	Bank of Boston Lux.
Monte dei Paschi di Siena‡	200	Dec.1999	(k)	99.90R	-	-	Swiss Bank Corp.
General Electric Capl.Corp.	300	Dec.1998	7.375	99.96R	7.397	+6(7¼%-98)	Swiss Bank Corp.
ABB International Finance	200	Jan.1997	7.50	99.98R	7.511	+20(7¼%-96)	ABN Amro Bank
Tubos de Acero de Mexico(m)	65	Dec.1999	13.75#	99.75R	13.86	+640(7⅞%-97)	Bankers Trust Intl.
Citifi Intl., Cayman Is.‡	100	Dec.1999	(p)	100.00R	-	-	IBJ Asia
Eagle Pier Corp.(s,t)	200	Oct.2001	(t1)	99.73R	-	-	Morgan Stanley Intl.
YEN							
Rinn Kagaku Corp.(u,s)§	10bn	Mar.2002	1.875#	100.00	-	-	Nomura International
MTBC Finance(Aruba)(q,s)★	25bn	Mar.2005	(q)	100.00	-	-	Mitsubishi Trust Intl.
STERLING							
ESt‡	200	Nov.1999	(a,c)	99.58R	-	-	CS First Boston
Deutsche Bank Finance	100	Dec.1998	8.00	100.10R	7.944	+20(10%-98)	Deutsche Bank London
National & Provincial B/S	100	Dec.1997	8.625	99.85R	8.684	+45(8¾%-97)	CS First Boston
European Investment Bank(o)	100	Aug.1999	6.00	91.947	8.127	-	BZW
AUSTRALIAN DOLLARS							
Crédit Local de France	100	Jan.1999	10.50	101.453	10.04	-	BZW
Tasmanian Public Fin. Corp.	75	Dec.1997	10.50	101.45	9.918	-	Deutsche Bank London
NSW (Jersey)(o)	200	May.2006	zero	30.65R	11.04	-	HSBC Markets

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
D-MARKS							
Hungarian Foreign Trade Bank	150	Dec.2001	9.25	101.25	9.002	-	Bayerische Landesbank
KFW International Finance(g)	500	Oct.2004	7.75	100.05R	7.737	+24(6¾%-04)	JP Morgan/ West LB
Deutsche Ausgleichsbank‡	600	Dec.2002	(f)	100.00	-	-	ABN Amro/ Trinkaus
Citicorp‡	250	Dec.1999	(h)	99.98R	-	-	Goldman Sachs
North East Finance of Japan	150	Jan.2005	7.50	98.45R	7.580	+30(7½%-04)	Bank of Tokyo(Deutsch)
GUILDERS							
Deutsche Ausgleichsbank	250	Dec.2002	7.625	99.325R	7.741	+27(8¼%-02)	Rabobank Nederland
Baden Württemberg L-Finance	250	Dec.1999	7.375	99.675R	7.455	+20(7½%-99)	ABN Amro Bank
Banque Nationale de Paris	150	Dec.1997	7.00	100.29R	6.890	+40(6¾%-97)	ING Bank
BNG	500	Dec.2004	7.75	99.975R	7.754	+31(7¼%-04)	Rabobank Nederland
SWISS FRANCS							
Aegon	125	Jan.1999	5.50	102.75	4.729	-	Swiss Bank Corp.
Ost. Postsparkasse(r)	250	Nov.2002	5.625	103.625	5.053	-	UBS
Natl.Treasury Mgmt.Agency	150	Jan.1999	5.375	102.50	4.675	-	UBS
City of Vienna(v)	100	Nov.1998	5.375	102.875	4.548	-	Credit Suisse
LUXEMBOURG FRANCS							
Banque UCL★	2.5bn	Dec.1998	7.625	102.05	7.020	-	Banque UCL

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. §Convertible. ‡Floating rate note. ◊With equity warrants. ★Unlisted. #Semi-annual coupon. R: fixed re-offer price. a) Short 1st coupon. b) Conversion price: ¥9133. Callable from 1/4/98, subject to 140% hurdle, at par. c) 3-mth Libor +10bp. d) Issue launched 7/11/94 was increased to $350m. f) 3-mth Libor flat. [illegible] g) Fungible with DM1bn. Plus 60 days accrued. h) 3-mth Libor +35bp. j) 3-mth Libor +6¼bp. k) 3-mth Libor +⅛%. l) Long 1st coupon. m) Puttable in 3 yrs at par. o) [illegible] of privately placed coupon notes secured on coupons of A$200m NSW Tsry Crp 6½% exchangeable issue due 2006. Series 00 at par. q(i) 5% to 17/3/00 and 5.4% thereafter. r) Fungible with SFr200m. Plus 44 days accrued. s) Special purpose company. t1) 6-mth Libor +25bp. u) Block trade. Fungible with £500m. Plus 119 days accrued. v) Fungible with SFr150m. Plus 41 days accrued. Note: Yields are calculated on ISMA basis.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Barclays Bk 9¼% Bd. '99 FFR925.0
Do. 12¾% Snr. Sb. Bd. '97 £127.50
Blue Circle 3.75p
Bryant 3.6p
CS First Boston Fin. Gtd. Sb. FRN '03 $30.35
Forte 8¾% Bd 1997 £418.75
Hammerson 3.5p
Hepworth 5.6p
Housing Fin. 11½% Do. 2016 £5.75
Mandarin Oriental Int. $0.0165
Do. (Jersey) $0.0155
Mitsui OSK FRN 1997 Y65625.0
NKK 6.2% Bd. '02 Y620000.0
NT & T 0¼% Nts. '97 $212.50
P & O Dfd. 13.5p
Premium Tst. 1.75p
Redland Stlg. Fd. 10⅝% Gtd. Bd. '01 £108.75
Richards 1p
Rutland 0.3p
Sanwa Aust. Fin. Gtd. Flrg/Fxd. Rate Nts. '04 $2790.0
Sanyo Elec FRN '95 Y65625.0
Seats (No.12) Var. Cpn. Nts. '99 Y6944.0
Sirdar 3.7p
Tokyu USA 0.45% Nts. '95 Y645000.0
Toray Inds. FRN 1997 Y64375.0
Trade Indemnity 0.4p
Trans-Tokyo Highway 5¾% Gtd. Bd. '03 $287.50

■ TOMORROW
Avonside 2.1p
Bank of Montreal C$0.30
Linx Printing Tech 0.76p
London & Manchester 5.6p
Manchester Utd 14.5p
Tesco 2.7p

■ WEDNESDAY
NOVEMBER 30
Adscene 7¾% Cv. Pf. 3.875p
Allied Domecq 5½% Cm. Pf. 1.925p
Do. 7½% Cm. Pf. 2.625p
Allied Irish Bks Und. FRN $266.88
Automated Sec. 6% Cv. Pf. 3p
Bankers Inv. Tst. 0.97p
Do. 3½% Cm. Pf. £1.75
Bank Scot. 9¼% Non-Cm. Irrd. Pf. 4.625p
Do. 9¾% Non-Cm. Irrd. Pf. 4.875p
BEA 6¾% Cm. Pf. 3.375p
BNB Res. 1.77p
Bristol (City of) 11½% Rd. '08 £5.75
British Aerospace 4p
British Alcan Alum. 10⅜% Db. '11 £5.1875
Broken Hill Proprietary A$0.24
BTR Nylex A$0.0525
Cap. & Counties 6⅞% 1st Mtg. Db. 95/2000 £3.4375
Chase Manhattan Fltg. Rate Sb. Nts.'97 $132.71
City of Oxford Inv. Tst. 1.2p
Clayhithe 9½% Sb. Cv. Ln. 2000/01 £4.75
Collateralised Mort.(7)A2 FRN '28 £141.63
Do. Class A3 £153.64
Do. (9) Class A2 FRN '33 £55.05
Do. Class A3 £152.89
Commerzbank O'seas Fin. FRN '95 $508.33
Community Hospitals 5.1p
Contra-Cyclical Inv. Tst. 2.25p
Co-operative Bk 9¼% Non-Cm. Irrd. Pf. 4.625p
Cropper (J.) 9% Un. Ln. 94/99 £4.50
Dunlop Plants. 6% Pf. 2.1p
Elect. & Gen. Inv. 10¾% Db. '11 £5.375
Fleming Geared Inc.Inv. Tst. 6.3-13.3% Ptg. Pf. 6.65p
Forward Tech 0.5p
Gartmore Brit. Inc. & Growth Tst. 1.82p
Do. Units 1.82p
Geared Inc. Inv. Tst. 1.75p
Glasgow Inc. Tst. 0.6p
Global Grp. 0.2p
Goodhead 0.05p
Do. 7% Cv. Pf. 3.5p
Great Western Fin. $0.23
Hays 4.15p
Home Fin. (2) A FRN '30 £124.09
Do. Class B £188.05
Hong Kong Inv. Tst. 1.1p
Hong Kong Land (Bermuda) $0.035
Do. (Hong Kong) HK$0.270512
Do. (Jersey) $0.035
Hopkinsons 0.6p
How 0.375p
Hunting 8¼% Cv. Pf. 4.125p
Hydro-Quebec 15% Ln.'11 £7.50
ISA Intl. 0.605p
Ivory & Sime ISIS Cv. Annuity 5.5p
Jove Inv. Tst. 3p
Kleinwort Benson Prim. Und. FRN $273.25
Do. (Ser.2) $273.25
Landu Hldgs. 0.25p
Lister 5% Pf. 1.75p
Do. 4% Do. £2.0
Lloyds Bk. Prim. Cap. Und. FRN (2) $131.13
Lon. & St. Lawrence Inv. 3.12p
Maunders (John) 3.05p
McAlpine (Alfred) 3p
Midland Bank 14% Sb. Un. Ln. 02/07 £7.0
Ministergate 10% Cm. Pf. 5p
Mitsubishi Bk. FR Sb. Cts. 2000 $1323.13
Murray Ventures 8p
Nat West Bk. Prim. Cap. FRN Ser.C $101.13
Do. Und. Var. Rate Nts. $154.19
NHL (1) Dfd. Int. Mtg. Bckd FRN '28 £113.41
Northern Lea. FR Cv. 2nd Db. 96/2001 3.64726p
Ocean Wilsons 1p
Paterson Zochonis 7½% Cm. Pf. 3.75p
Do. 10% Cm. Pf. 5p
Peel Hldgs. 5¼% Cv. N/Vtg. Pf. 2.625p
Persona 0.68p
RMC Cap. 8¾% Cv. Cap. Bd. '05 £43.75
Rugby Gtd. FRN Aug.'97 $13346.67
Do Gtd. FRN '99 $13346.67
Record Hldgs. 1.16p
Ricardo 4p
Roskel 1.3p
Royal Bank Can. Fltg. Rate Db.'05 $42.19
Russell (Alexander) 1p
St. Modwen Props. 8½% Cm. Rd. 2nd Pf. 4.25p
Samea Bank Sb. FRN 2000 $1323.13
Scottish TV 2.2641p
Sedgwick 7¼% Cv. Bd. '05 £181.25
Senior Eng. 1.3p
Specialeyes 10% Cv.Un.Ln.2000 £5.0
Sphere Inv. Tst. 0.75p
Do. Units 6p
Standard Chart. Sb. FRN '96 £70.59
Sterling Publ. 6% Cv. rd. A PQL 2000 3p
Stoddard Sekers 4% Cm. Pf. 2p
Sun Alliance 7¼% Cv. Sb. Bd. '06 £36.25
3i Int. Gtd. FRN '94 £14.10
Do. Gtd. FRN '99 £143.36
TMC PIMBS 5th Fin. Iss.No.8 Aug.'28 £61.33
Do. 4th Fin.Iss.No.1 Aug.'30 £143.17
Do. 7th Fin. A Iss.No.6 Aug.'31 £65.72
Do. Class B £157.38
TR City of Lon. Tst. 1.31p
TR Smaller Co's Inv. Tst. 10½% Do.'10 £5.25
TSB Var. Rate Sb. Nts. '03 £151.10
TSB Hill Samuel Perp. FRN $266.86
TT Fin. 11⅛% Gtd. Do. '10 £5.65625
Tate & Lyle Cv. Pf. 3.625p
Thorntons 3.45p
Throgmorton Tst. 12⅜% Db. £6.15625
Do. 7¾% Cv. Un. Ln. '03 £3.825
Trust Union Fin. (91) 8¼% Db. '98 £4.0625
Urban Mort. Bk Sweden Sb. FRN '01 $16520.83
WPP 0.385p
Wells Fargo FRN 2006 $43.75

■ THURSDAY
DECEMBER 1
Ahmanson (HF) $0.22
American Brands $0.50
American General $0.29
Asarco $0.10
Austin Reed 2p
BS Grp. 3p
Barclays Non-Cm. $ Pf. Ser.A $0.556
Do. Ser.B $0.5438
Do. Ser.C1 $0.4219
Do. Ser.C2 $0.1406
Do. Units $0.5625
Do. Ser.D1 $0.4313
Do. Ser.D2 $0.1437
Do. Ser.D Pf. Units $0.575
CNA Gallo 5% Gross Cm. Pf. R0.05
Canning (W) 2.04p
Caradon Cv. Pf. 3.625p
Cater Allen 5% Cm. Pf. 1.75p
Do. 4.2% Cm. Pf. 2.1p
Cookson 3.2p
Dairy Farm Int.(Bermuda) $0.0165
Do. (Hong Kong) HK$0.127510
Do. (Jersey) $0.0165
Delta 4.3p
Derwent Valley 1.58p
Dinkie Heel 0.5p
Eadie Hldgs. 0.3p
Fleming Claverhouse Inv. 1.25p
Fleming Merc. Inv. Tst.4¼% Perp. Db. £2.125
Folkes 0.582p
Do. N/Vtg. 0.582p
Ford Credit Euro. FRN '95 £28.44
Ford Motor $0.26
Foreign & Col. Tst. 4¼% Perp. Db. £2.125
Fujitsu Y5.0
Garton Eng. 1.25p
General Cons. Inv. Tst. 4¼% A Cm. Pf. £1.4875
Gentinance 11.48% Ln.'07 £57.45
Goodman Fielder A$0.06
Govett Oriental Inv. Tst. 5% Cm. Pf. 1.75p
Great Port. Ests. 9½% Cv. Ln. '02 £4.75
Greencore 9½% Cv. Ln. '95 IR£4.75
Hambros Inv. Tst. 3½% Cm. Pf. £1.225
Harris (P.) 7½% Cm. Pf. 2.625p
Do. 8% B Cm. Pf. 2.8p
Higgs & Hill 1p
House of Fraser 1.7p
Ibstock 0.5p
Illingworth Morris 7% Non-Cm. Pf. 1.225p
Inco $0.10
Ingersoll-Rand $0.185
Int. SE of UK & Republic of Ire. £3.625
Jardine Strategic (Bermuda) $0.046
Do. (Hong Kong) HK$0.355508
Do. (Jersey) $0.046
Kirklees Met. Council 11.6% Rd. 2031 £5.80
Kleinwort Charter Inv. Tst. 4% Cm. Pf. £2.0
Ladbroke 2.4p
Lamont Hldgs. 3.85p
Law Debenture 4½% Db. £2.25
Legal & General 6.95p
Lewis (J.) Part. 5% Cm. Pf. 1.75p
Do. 7½% Cm. Pf. 2.625p
Lombard Nrth Cent. 6% Cm. 1st Pf. 2.1p
Do. 5% Cm. 2nd Pf. 1.75p
London (County) 2½% Cons. £0.625
Do 3% Cons. £0.75
Manganese Bronze 2.5p
Minerals Oils & Res. $0.25
Monks Inv. Tst. 11% Db. '12 £5.50
Murray Small. Mkts. Tst. 4.1% Cm. Pf. 2.05p
Natl. Home Lns. Sec. FRN '95 $1.54
Novo 0.1p
Ontario & Quebec Rail. C$3.0
Do. 5% Perm Db. £2.5
Pantheon Int. Parts. 0.5p
Perry Grp. 8.75p
Reed Int. 4½% Cm. Pf. 1.575p
Do. 5½% Cm. Pf. 1.925p
RMC 7p
RPH 4% Cm. Pf. 1.4p
Do. 8% Cm. Pf. 2.8p
Save & Prosper Unit. Inv. 18.3p
Suffolk Water 7% Rd. Pf. 96/98 3.5p
Sun Alliance 5.5p
TR Smaller Co's Inv. Tst. 4½% Cm. Pf. 1.575p
Union Carbide $0.1875
USLIFE $0.33
Vivat 7% Pf. 2.45p
War Loan 3½% £1.75
Wright (J.) 4½% Cm. Pf. 1.575p

■ FRIDAY
DECEMBER 2
APV 1p
Aberforth Split Level Tst. 2p
Do Units 2p
Alexandra Workwear 2.3p
Amstrad 0.3p
Anglo Am. Inv. Tst. R0.94
BMSS 2p
BAT Inds. 12¼% Un. Ln. 03/08 £6.125
Bardon 0.8p
Berry Birch & Noble 1.8p
Bilton 2.89p
Boeing $0.25
Bostrom 2.5p
Capital Inds. 2.1p
ECU Tst. 0.5p
Edinburgh Inv. Tst. 3.05p
Edmond Hldgs. 0.16p
English National Inv. 6.4p
Do. Dfd. 2.85p
Enterprise Oil 10¾% Un. Ln. '13 £5.375
Everest Foods 1.3p
Halstead (James) 4.75p
JBA 0.6p
Jardine Matheson (Bermuda) $0.078
Do. (Jersey) $0.078
Laird 4.4p
Lloyds Bank Sb. FRN '98 £15.43
Meggitt 1.3p
Metsec 1p
Moss Bros 3p
New Central Wits. R0.91
Northern Leisure 2p
Oriel 2p
Raine 2p
River & Merc. Extra Inc. Tst. 1.98875p
St. Ives 4.5p
Sanwa Fin. Aruba Gtd. Sb. FRN Ser.4 $726.74
Shiloh 1p
Trans-Natal Coal R0.20
Utd. Newspapers 7.75p
Yorkdyde 2.4p

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Leeds Hldgs., 3, Clanricarde Gardens, Tunbridge Wells, Kent, 12.00
Murray Ventures, 7, West Nile Street, Glasgow, 12.30

BOARD MEETINGS:
Finals:
Dominion Energy
OEM
Prospect Inds.
Rodime
Sidlaw
Interims:
Edinburgh Inc. Tst.
European Motor
Field Grp.
Fleming Far Eastern Inv.
Hadleigh Inds.
Hogg Robinson
Independent Parts Grp.
JLI Grp.
Lester & Co.
Marling Inds.
Merrydown
Philip Morris
Schroders (C)
Shield Diagnostics

■ TOMORROW
COMPANY MEETINGS:
High-Point, Institute of Directors, 116, Pall Mall, S.W., 10.00
Upton & Southern, 50, Stratton Street, W., 3.00

BOARD MEETINGS:
Finals:
EBC Currency Fd.
Murray Enterprise
Interims:
Abtrust Lloyds Ins. Tst.
Avesco
BOA Hldgs.
Borthwicks
Carnell
Eastern Electricity
Falcon
Hampson Inds.
Leigh Interests
Monks Inv. Tst.
Neepsend
Policy Portfolio
Severn Trent
Tops Estates

WEDNESDAY
NOVEMBER 30
COMPANY MEETINGS:
Five Oaks Invs.,The Savoy, Strand, W.C., 10.30
Grant (Ernest) & Partners, 3a, St. Andrews Hill, E.C., 12.00
Pantheon Int. Participations, Farmers & Fletchers Hall, 3, Cloth Street, E.C., 4.00
St. Ives, St. Ives House, Lavington Street, S.E., 9.00
Wescol Grp., Black Horse, Thorngate, Clifton, Brighouse, 11.00

BOARD MEETINGS:
Finals:
Dead Sea Works
Environmed
Jupiter European Inv.
Sanderson Elec
Interims:
Azlan Grp.
British Biotech
Cape
Dawson Int.
Evans of Leeds
Fleming Indian Inv.
GEI
London Elec
Mountview Estates
Regent Corp

■ THURSDAY
DECEMBER 1
COMPANY MEETINGS:
Allied London Properties, Four Seasons Hotel, Park Lane, W., 12.00
Explaura Hldgs., Grant Thornton House, 22, Melton Street, Euston Square, N.W., 10.00
Manganese Bronze, 1, Love Lane, E.C., 12.00
Northern Leisure, 1, Primrose Hill, Preston, Lancs., 11.00
Unitemp, The Barn, Micheldever Station, Winchester, 12.30

BOARD MEETINGS:
Finals:
Caltech
Grand Metropolitan
Leeds Grp.
Hanson
MEPC
Interims:
AAH
BPB Inds.
Castings
Cater Allen
Gibbon
Great Southern Grp.
Mercury Euro Privatisation Tst.
Rowlinson Sec
Seaboard
3i Grp.

■ FRIDAY
DECEMBER 2
COMPANY MEETINGS:
Essex Furniture, The Forum, Temple Farm, Sutton Road, Southend on Sea, 11.30
Halstead (James), Holiday Inn Crowne Plaza Midland, Peter Street, Manchester, 12.00
Highland Distilleries, Royal Scottish Automobile Club, 11, Blythswood Square, Glasgow, 12.00
Int. Communication & Data, Lansdowne Club, 9, Fitzmaurice Place, Berkeley Square, W., 11.00
MEET, Essex Hall, Essex Street, W.C., 10.15
Stratagem, Exchange House, Primrose Street, E.C., 10.30

BOARD MEETINGS:
Finals:
Henderson Strata Inv. Tst.
Wolverhampton & Dudley Breweries
Interims:
Brown & Tawse
Scott Pickford
Vendome Luxury

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

FT CONFERENCES

VENTURE FORUM EUROPE '94
London 1 & 2 December 1994
Arranged jointly by the Financial Times and Venture Economics, this annual meeting brings together recognised experts from Europe and North America to discuss key issues facing the industry; identify the investment strategies and assess how institutional investors now view venture capital as an asset class.

WORLD TELECOMMUNICATIONS
London, 6 & 7 December 1994
Trends changing the shape of the telecommunications industry, including international alliances, the construction of 'superhighways' and the regulation of competition will be addressed by Dr Martin Bangemann, European Commission; Dr Michael Nelson, The US Office of Science and Technology Policy; Mr Don Cruickshank, Office of Telecommunications (OFTEL); Mr Ronald T LeMay, Sprint Long Distance Division; Sir Iain Vallance, BT.

THE POLISH HIGHWAY PROGRAMME - OPPORTUNITIES FOR PRIVATE FINANCE AND INVESTMENT
Warsaw, 12 & 13 December 1994
This Financial Times conference, arranged in association with The Institution of Civil Engineers (ICE), will mark the commencement of the forthcoming $8bn Highway Construction Programme with this high-level forum to explore the key challenges - financial, technical, managerial and operational - in mounting major infrastructure projects in Poland. Speakers include: Dr Boguslaw Liberadzki, Polish Minister of Transport and Maritime Economy; Mr Ryszard Pazura, Polish Deputy Minister of Finance; Mr Andrzej Patalas and Mr Miroslaw Grelik, Agency for Motorway Construction; Mr Paul Knotter, The World Bank Poland; Mr Maciej Olex-Szczytowski, Schroder Polska; Dr Manfred Knoll, Deutsche Bank AG; Mr Lars Nordin, European Bank for Reconstruction and Development; Mr Walter Cernola, European Investment Bank; Mr A Kent Riffey, Bechtel Civil Company; Mr Henry Liszka, Bovis Polska; Mr Dariusz Stolwinski, Dromex; Mr Olivier Bonnin, Bouygues.

BIOTECHNOLOGY - A REVOLUTION IN THE MAKING?
London 13 & 14 December 1994
This high-level meeting will review current developments in biotechnology and assess future trends; consider regulatory issues and discuss the challenges of raising the finance needed to exploit fully the sector's potential. Speakers will include: Carl Feldbaum, Biotechnology Industry Organization; Professor Dr Jürgen Drews, Hoffmann-La Roche Inc; Professor Ernst-Günter Afting, Roussel Uclaf; Mr Strachan Heppell CB, European Medicines Evaluation Agency; Dr Alan G Walton, Oxford BioScience Partners; Dr John Keller, SmithKline Beecham Pharmaceuticals and Teoh Yong Sea, Singapore Bio-Innovations Pte Ltd.

INTERCONNECTION - THE EVOLVING UK PROGRAMME AND ITS INTERNATIONAL CONTEXT
London, 8 February 1995
Senior speakers from OFTEL, led by Mr Don Cruickshank its Director General, will look at the key issues of the UK's interconnection programme. This joint conference will also address interconnection and competition in international telecommunications, with presentations from the US Federal Communications Commission, the European Commission's Telecommunications Directorate and the Swedish National Post and Telecom Agency.

All enquiries should be addressed to: Financial Times Conferences, P O Box 3651, London SW12 8PH, UK. Telephone: 081-673 9000. Fax: 081-673 1335.

CONFERENCES & EXHIBITIONS

NOVEMBER 30
Pakistan Today - Prospects for British Business
CBI conference includes keynote addresses by Prime Minister Benazir Bhutto and Michael Heseltine, presentations by senior Pakistan Government officials and UK investors and exporters, together with sectorial workshops and networking meetings.
Contact Nicola Martin, CBI Conferences
Tel 071 379 7400
24 hr Fax-on-demand 071 240 1248
LONDON

DECEMBER 1 & 2
Venture Forum Europe
Arranged jointly by the Financial Times and Venture Economics, this major annual event brings together recognised experts from Europe and North America to discuss key issues, identify the *investment strategies and assess how the* institutional now view venture capital as an asset class.
Enquiries: Financial Times.
Tel: 081 673 9000 Fax: 081 673 1335.
LONDON

DECEMBER 2
Currency Risk Management Workshop
Understand and identify exposures, and learn the techniques of currency risk management. Spot and Forward FX. Standard and 'Exotic' Currency Options. Zero Premium Strategies. Currency Swaps.
£275 1 DAY
Contact: Fairplace Banking & Financial Training Tel: 071 329 0595
LONDON

DECEMBER 6 & 7
Lobbying the European Union
This conference is addressed to those who know something of Brussels and need to stay up-to-date with the changes that are currently taking place.
Further details from International Professional Conferences Ltd Tel: 061 445 8623.
LONDON

DECEMBER 7
The Coming Year in Parliament
An assessment of the Queen's Speech, views from the Government and the Opposition. Discussion of the role played by backbench MPs and Peers; The Budget; the agenda for Select Committees; and implications for Europe.
Contact: Jackie Nixon, The House Magazine
Tel: 071 233 1388
LONDON

DECEMBER 7-8
Succeeding with Teams:
practical strategies for designing, implementing and driving the team-based organisation. An international two-day conference specifically designed to help senior executives understand the fundamental issues involved in designing and implementing a team-based organisation.
Contact: Business Intelligence
Tel: 081-543 6565 Fax: 081-544 9020
LONDON

DECEMBER 8
Dispute Resolution in the International Oil and Gas Industries
This conference will consider recent interest within the international oil and gas industries in dispute resolution and arbitration in respect both of disputes within the industry and of external disputes which affect the industry, such as those regarding territorial jurisdiction.
Contact: The Institute of Petroleum, Conference Department
Tel: 071 467 7100
LONDON

DECEMBER 8
The UK Economy
Prospects up to and beyond the next General Election.
This Henley Centre Conference is our annual look at the UK Economy and its prospects for the medium term.
Cost: £350 + VAT
Contact: Anna Harman at The Henley Centre Tel: 071 353 9961
LONDON

DECEMBER 8
The European Works Council Directive
CBI Conference with speakers from EU Commission, UK Government, Business and Trade Union Movement examining the new legislation on trans-border information and consultation of employees.
Contact: Sandra Aldred, CBI Conferences
Tel: 071 379 7400
24 hr Fax-on-Demand: 071 240 1248
LONDON

DECEMBER 13
Flexible Labour Markets
CBI *conference considers 'who pays for training'* in the new market conditions with an expert panel and case studies to identify the various issues.
Contact: Sandra Aldred, CBI Conferences
Tel: 071 379 7400
24 hr Fax-on-Demand: 071 240 1248
LONDON

DECEMBER 13 & 14
FT-Biotechnology - A Revolution in the Making?
This high level meeting will review current developments in biotechnology and assess future trends, consider regulatory issues and discuss the challenges of raising the finance *needed to exploit the sector's potential.*
Enquiries: Financial Times
Tel: 081 673 9000
Fax: 081 673 1335
LONDON

DECEMBER 13 & 14
Introduction to Foreign Exchange and Money Markets
Highly participative training course covering traditional FX and money markets *featuring WINDEAL (PC Windows based* dealing simulation). For Corporate treasurers, bank dealers, marketing executives, financial controllers, systems and support personnel. £480 + V.A.T.
Lywood David International Ltd.
Tel: 0959 565820 Fax: 0959 565821
LONDON

DECEMBER 15
Business Opportunities in Scotland Conference
Sponsored by Edinburgh District Council, TSB, Arthur Andersen & McGrigor Donald and features Lord Thomson, Sir Ian Wood, *Tom Farmer, Professor Donald Mackay.* Discusses prospects for economy investment, energy, agriculture, manufacturing and services.
Details: Cityforum Ltd.
Tel: 01225 466744 Fax: 01225 442903
LONDON

DECEMBER 15
Signed, Sealed & Delivered
CBI conference provides line managers responsible for health and safety with comprehensive information on the background and consequences of the new provisions for pregnant workers and safety signs in the workplace.
Contact: Nicola Martin, CBI Conferences.
Tel: 071 379 7400. 24hr Fax-on-Demand: 071 240 1248
LONDON

DECEMBER 19-20
Compliance
An indepth look at regulation for all involved with compliance and investment business activity.
UK and European community policies and regulatory framework, bank regulation, money laundering, capital adequacy, companies and directors' responsibilities, creative accounting, misuse and abuse
£550 plus VAT
Contact: BPP Bank Training, Richard Capps Tel: 0171 628 8444 Fax: 0171 628 7818
LONDON

JANUARY 11-12
Re-Engineering for Growth-Executive
An interactive workshop for executives keen to break out of the anorexic cost reduction spiral and initiate genuine transformation. Examines how we can use BPR to create the capabilities, flexibility and openness in learning that will ensure future growth and competitiveness. Facilitated by an international authority on re-engineering and transformation.
Contact: The Centre for Business Transformation
Tel: +44 (0)171-435 3570 (24 hours)
Fax: +44 (0)171 794 3568 (24 hours)
LONDON

JANUARY 17-18
Building a Learning Organisation -
Practical tools, techniques and strategies for creating and sustaining a learning *organisation.* This expert led workshop has been designed to help executives understand the opportunities, explore the methods, and focus on the challenges of *accelerating individual and team learning* to improve capability and performance at all levels of the organisation.
Contact: The Centre for Business Transformation
Tel: +44 (0)171-435 3570 (24 hours)
Fax: +44 (0)171 794 3568 (24 hours)
LONDON

JANUARY 19 & 20
Securities Settlements
For those wishing to gain a good understanding of the settlements business. Detailed review of global custodian role, including settlement conventions international/domestic, bonds and equities, Euroclear, Cedel, reports and controls, rolling settlement and electronic book entry systems. £595 plus VAT.
Contact: BPP Bank Training, Jonathan Rogers. Tel: 0171 628 8444 Fax: 0171 628 7818
LONDON

JANUARY 20
Compliance Under The New Regime
Insurance, Pensions and Savings: Solving the Major Problems. A detailed briefing for all compliance officers. Chairman: Ralph Lindeyer, Compliance Control Ltd. *Speakers include: Alan Brener, PIA; Wyn* Thomas, Save & Prosper Group Ltd; Rowan Bosworth-Davies, Titmuss Sainer Dechert.
Contact: Sacha Tam,
TEL: 071 404 3040 FAX: 071 404 2081
LONDON

JANUARY 20
International Asset Allocation
Professionals involved in international investment management. Investor objectives will be analysed and the principles and techniques of asset allocation will be explained and evaluated. The importance of derivatives in the process will be examined plus strategic, tactical and synthetic asset allocation.
£325 plus VAT.
Contact: *BPP Bank Training, Dr Terry Watsham*
Tel: 0171 628 8444 Fax: 0171 628 7818
LONDON

JANUARY 23 - 25
Executive Directors' Remuneration
Explores performance criteria, long term incentives, contracts, and total remuneration package design. Hear experts from corporations, political parties, investors, think-tanks. You will leave the conference and workshop able to design your total remuneration strategy.
Contact: Titus Hall, AIC Conferences.
Tel: (071)827 5988
SELFRIDGE HOTEL, LONDON

JANUARY 24
Interim Management
The Resourcing Strategy for the Nineties
A national conference in association with PA Consulting Group, chaired by Tom Maddocks, addressing the growing strategic importance of this flexible director-level resourcing strategy. It will highlight the *business benefits* and *economic* considerations involved for both organisation and individual. Public and private sector UK case studies.
The Conference Partnership Tel: 0256 330315
LONDON

JANUARY 24 & 25
Re-engineering the I.T. *Function:*
Re-aligning I.T. culture, capabilities and skills to deliver radical business performance improvement.
An international two-day conference of leading experts and practitioners which explores the introduction of new strategies, development of new organisations and management structures to enable I.T. to play a key role in transforming the business.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
LONDON

JANUARY 24 & 25
Trading Precious Metals
This seminar examines the marketplaces for gold, silver, platinum and palladium. Understanding the markets will develop through three main areas, the physical specifications, interest bearing aspects and market prices. Spot markets, fixings, arbitrage, interest rates GOFO, hedging, speculation, futures. £595 plus VAT.
Contact: BPP Bank Training, Jonathon Rogers Tel: 0171 628 8444 Fax: 0171 628 7818.
LONDON

JANUARY 25-27
Digital Images '95
Europe's first major conference and exhibition on electronic photography, digital image capture, manipulation, storage, archiving, proofing and electronic delivery. Speakers from all over the world share their experience. There are also 36 special-interest sessions which may be booked *individually.*
Details: The Hammond Organisation
Tel: +44 81 943 9700
LONDON

JANUARY 26 1995
Strategy Update
In today's increasingly complex and hostile markets it is no longer sufficient to rely on past experience. Managers must think strategically when developing and implementing plans which will impact their company's competitive position. Yet most managers devote less than 3% of their time to strategy development. This seminar aims to redress the balance.
Contact: Elaine Parocki at Cranfield School *of Management*
Tel: 0234 751122 Fax: 0234 750070
CRANFIELD

FEBRUARY 15-17
Credit Training Workshops
Thomson BankWatch, Inc. leader in global bank risk analysis, is running a series of credit training workshops. Topics being covered are: Emerging Markets Sovereign Risk Analysis, Latin American Banks, Introduction to Banking Systems and Banks of Emerging Markets of Asia.
For full details please contact
Terry Brunne 071-353 5548 or
Fax: 071-815 0408
LONDON

FEBRUARY 20 & 21
Business Process Re-engineering (BPR)
leading seminar series on Business Process Re-engineering. Enhanced 1995 programme *includes new sections on self-managed* teams and radical BPR. Coaching style of presentation. Based on 150 successful BPR projects in 60 organisations in the private & public sectors attended in 1994. Repeated March 20-21.
Contact: Richard Parris, Vertical Systems Intercede Ltd. Tel: +44-455-250266 Fax:+44-455-250266
LONDON

FEBRUARY 22-23
Pay Appraisal and Career Development
A practical guide to the latest techniques for achieving excellent employee performance in the *delayered organisation.* This important two-day conference explores how to radically *improve your business performance by* linking individual targets to corporate objectives through effective reward, appraisal and motivation systems.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
LONDON

APRIL 26-27
Derivatives Risk Management
Executives in the financial industry involved in planning, organising and directing financial instruments in banking and treasury departments. Developing new financial products; Trading in derivatives; Controlling exposure and risk; Developing the technology to support derivatives.
£790 plus VAT
Director - Prof Dimistris Chorafas
Contact: BPP Bank Training, Hilary Jackson
Tel: 0171 628 8444 Fax: 0171 628 7818
LONDON

INTERNATIONAL

DECEMBER 12 & 13
FT- The Polish Highway Programme Opportunities for Private Finance and Investment
This Financial Times conference, arranged in association with The Institution of Civil Engineers (ICE), will mark the commencement of the forthcoming $8bn Highway Construction Programme with *this high-level forum to explore the key* challenges- financial, technical, managerial and operational- in mounting major infrastructure projects in Poland.
Enquires: Financial Times.
Tel: 081 673 9000 Fax: 081 673 1335
WARSAW

JANUARY 25 & 26
Beyond Reengineering
This conference will explore how organisations can increase global competitiveness by improving or innovating business processes to be more customer focused; maximising workforce potential and incorporating change management principles. Keynote presentation by Martin Bangemann, EC Commissioner on Competitiveness.
Contact: Kathleen Stuart-King,
+ (32) 2675 54 05 (Telephone)
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[illegible]

NORTH AMERICA

CANADA — TORONTO (Nov 25 / Can $) 4 pm close — MONTREAL (Nov 25 / Can $) 4 pm close

[illegible]

AFRICA

SOUTH AFRICA (Nov 25 / Rand)

[illegible]

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). ¶ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO – MOST ACTIVE STOCKS: Friday, November 25, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	7.1m	373	−2	Nippon Paper	2.8m	729	−6
Mitsubishi Hvy	3.4m	725	−2	NKK	2.6m	267	−4
Sharp	3.1m	1710	+20	Fujitsu	2.3m	1000	−10
Kawasaki Steel	2.8m	416	+6	NEC	2.1m	1140	−20
Oki Elec	2.8m	679	−7	Nippon Yusen	2.1m	639	−6

INDICES

	Nov 25	Nov 24	Nov 23	1994 High		1994 Low	
Argentina							
General (29/12/77)	17044.25	17197.64	17061.54	25470.40	16/2	17044.25	25/11
Australia							
All Ordinaries(1/1/80)	1910.9	1885.7	1857.1	2340.60	3/2	1857.10	23/11
All Mining(1/1/80)	959.4	944.4	929.7	1136.10	3/2	904.80	5/5
Austria							
Credit Aktien(30/12/84)	387.18	384.75	384.97	468.86	2/2	376.94	25/10
Traded Index(2/1/91)	1029.79	1024.69	1022.02	1222.25	1/2	1011.38	6/6
Belgium							
BEL20 (1/1/91)	1396.97	1392.96	1384.05	1542.65	9/2	1338.39	7/10
Brazil							
Bovespa (29/12/83)	43967.6	45734.0	43930.0	55110.00	13/9	3800.90	3/1
Canada							
Metals Minls♦(1975)	3784.96	3744.11	3716.41	4278.02	20/10	3289.96	20/4
Composite♦ (1975)	4098.30	4065.60	4048.60	4609.90	23/3	3959.99	24/6
Portfolio§§ (4/1/83)	2001.48	1996.90	1975.51	2182.80	1/2	1898.48	28/6
Chile							
IPGA Gen (31/12/80)	5658.8	5632.3	5601.0	5754.40	21/11	3901.20	4/4
Denmark							
CopenhagenSE(3/1/83)	344.40	343.85	341.66	416.79	2/2	337.19	3/11
Finland							
HEX General(28/12/90)	1853.2	1882.2	1840.3	1972.00	4/2	1601.10	3/1
France							
SBF 250 (31/12/90)	1288.38	1283.06	1289.44	1585.20	2/2	1227.86	25/10
CAC 40(31/12/87)	1945.89	1934.68	1893.08	2355.93	2/2	1824.42	25/10
Germany							
FAZ Aktien(31/12/58)	773.13	771.38	768.46	859.27	18/5	742.04	5/10
Commerzbank(1/12/53)	2200.50	2185.90	2189.00	2485.58	2/5	2116.30	5/10
DAX (30/12/87)‡	2051.62	2055.97	2033.31	2271.11	16/5	1980.59	7/10
Greece							
Athens SE(31/12/80)	809.79	806.11	808.44	1194.55	18/1	804.37	22/11
Hong Kong							
Hang Seng(31/7/64)	8658.83	8647.86	8576.03	12201.09	4/1	8369.44	4/5
India							
BSE Sens.(1979)	4132.38	4075.39	4022.67	4628.57	12/9	3454.00	5/1
Indonesia							
Jakarta Comp.(10/8/82)	487.57	488.50	482.01	612.89	5/1	440.72	12/7
Ireland							
ISEQ Overall(4/1/88)	1809.28	1807.80	1792.43	2002.16	20/1	1694.14	1/7
Italy							
Banca Comm Ital (1972)	623.17	626.65	623.64	697.17	10/5	588.85	10/1
MIB General (4/1/94)	1009.0	1015.0	1010.0	1318.00	10/5	944.00	10/1
Japan							
Nikkei 225 (16/5/49)	18688.98	18701.24	(c)	21552.81	13/6	17369.74	4/1
Nikkei 300 (1/10/82)	272.73	272.67	(c)	311.71	13/6	268.22	4/1
Topix (4/1/68)	1494.02	1494.16	(c)	1712.73	13/6	1445.97	4/1
2nd Section (4/1/68)	2054.34	2060.32	(c)	2542.66	6/7	1873.93	4/1
Malaysia							
KLSE Comp.(4/4/86)	1011.52	1007.54	1001.80	1314.46	5/1	928.33	4/4
Mexico							
IPC (Nov 1978)	(u)	2438.96	2416.67	2881.17	8/2	1957.33	20/4
Netherlands							
CBS TtlRtnGen(End 83)	431.6	432.0	427.8	454.90	31/1	406.30	21/6
CBS All Shr (End 83)	270.8	271.6	268.4	294.80	31/1	257.90	21/6
New Zealand							
Cap. 40 (1/7/86)	1992.22	1986.17	1962.33	2409.64	3/2	1945.31	11/7
Norway							
Oslo SE(Ind)(2/1/83)	1049.88	1050.30	1037.95	1211.10	28/2	988.91	21/6
Philippines							
Manila Comp (2/1/85)	2723.36	2730.47	2725.75	3308.37	4/1	2387.33	9/3
Portugal							
BTA (1977)	2958.2	2944.0	2942.7	3228.60	18/2	2612.80	20/6
Singapore							
SES All-S'pore(2/4/75)	543.65	542.93	542.37	641.91	4/1	523.29	4/4
South Africa							
JSE Gold (28/9/78)	2045.7♥	2067.6	2046.6	2334.00	7/9	1740.00	14/2
JSE Ind. (28/9/78)	6929.2♥	6949.9	6886.9	6984.19	22/11	5446.00	19/1
South Korea							
KoreaCompEx(4/1/80)**	1074.55	1085.16	1095.97	1138.75	8/11	855.37	2/4
Spain							
Madrid SE (30/12/85)	302.92	301.63	299.72	358.31	31/1	288.65	26/10
Sweden							
AffarsvarldnGen (1/2/37)	1495.80	1499.00	1475.40	1808.90	31/1	1324.70	6/7
Switzerland							
Swiss Bk Ind (31/12/58)	1208.60	1210.41	1203.06	1423.34	31/1	1138.72	27/10
SBC General (1/4/87)	912.76	910.86	903.97	1083.29	31/1	876.57	27/10
Taiwan							
WeightedPr.(30/6/66)**	6421.82	6340.02	6371.46	7191.13	30/9	5194.63	19/3
Thailand							
Bangkok SET (30/4/75)	1346.39	1357.28	1332.85	1753.73	4/1	1196.59	4/4
Turkey							
Istanbul Comp.(Jan 1986)	27009.57	26696.0	26828.1	28893.60	13/1	12908.70	24/3
WORLD							
MS Capital Int (1/1/70)$	606.9*	606.6	607.7	649.90	2/11	591.60	4/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	1328.77	1329.65	1313.33	1540.10	31/1	1288.48	5/10
Euro Top-100 (26/6/90)	1172.66	1172.30	1159.99	1311.01	2/2	1136.48	5/10
JCapalDrgns (31/12/88)	(u)	311.04	308.88	395.19	5/1	290.28	21/3
Barings Emerg.(7/1/92)	170.00	168.37	169.63	191.75	26/9	141.65	21/4

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Nov	1935.0	1934.0	-	1950.5	1926.0	16,472	15,344
Dec	1945.0	1943.0	-	1959.0	1935.5	2,999	26,287
Jan	1952.5	1950.5	-	1952.5	1946.0	303	372

Open interest figures for previous day.

** Sat Nov 19: Taiwan Weighted Price 6449.66; Korea Comp Ex 1117.58. Base values of all indices are 100 except: Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 25 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Nov 25 – 2056.27 –2.52

US INDICES

Dow Jones	Nov 25	Nov 23	Nov 22	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3708.27	3674.63	3677.99	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	93.77	93.76	93.76	105.01 (21/1)	93.75 (21/11)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	1429.18	1422.19	1440.82	1862.29 (2/2)	1422.10 (23/11)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	179.81	177.50	173.94	227.06 (3/1)	173.94 (22/11)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high (u) (3704.81) Low (u) (3612.05) (Theoretical♦)
Day's high 3712.98 (3685.39) Low 3672.61 (3638.97) (Actual♦)

Standard and Poors	Nov 25	Nov 23	Nov 22	1994 High	1994 Low	Since compilation High	Since compilation Low
Composite ‡	452.29	449.93	450.09	482.00 (2/2)	435.92 (4/4)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials♥	537.32	534.31	537.25	563.10 (28/10)	510.05 (21/4)	563.10 (28/10/94)	3.62 (21/6/32)
Financial	41.04	40.79	39.87	46.94 (14/6)	39.87 (22/11)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	247.90	246.16	248.32	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	434.69	432.40	436.14	487.89 (2/2)	422.57 (20/6)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Comp	742.52	736.70	741.21	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Nov 18	Nov 11	Nov 4	Year ago
Dow Jones Ind. Div. Yield	2.79	2.78	2.78	2.71
	Nov 16	Nov 8	Nov 2	Year ago
S & P Ind. Div. yield	2.38	2.39	2.39	2.38
S & P Ind. P/E ratio	19.03	20.93	20.95	26.88

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Dec	450.55	453.65	+3.10	453.70	450.55	104,483	209,781
Mar	454.00	456.65	+3.10	456.60	453.95	9,830	46,052
Jun	458.90	460.50	+3.00	460.50	458.90	450	4,816

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
FPL	1,572,200	34⅛	+⅜
Telefonos	1,495,400	51⅛	+1
AT & T	1,382,600	49¾	-¼
Gen Motors	1,233,900	38	+¼
Citicorp	1,203,200	42	+⅜
Wal-Mart	1,147,300	23¾	+¼
Motorola	1,083,800	56¾	+1
IBM	1,037,200	70⅞	+1¼
Chrysler	1,027,800	48⅝	+⅛
Merck	1,918,400	36⅝	+⅛

■ TRADING ACTIVITY

● Volume (million)	Nov 25	Nov 23	Nov 22
New York SE	113.821	430.735	383.249
Amex	7.715	23.190	18.428
NASDAQ	(u)	329.517	329.517
NYSE			
Issues Traded	2,720	2,833	2,833
Rises	1,492	1,144	475
Falls	564	1,236	1,895
Unchanged	664	553	563
New Highs	3	9	8
New Lows	54	344	325

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Nov 25		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.1522	+0.0188	455 - 588	17.1597	17.1151	17.1476	0.3	17.136	0.4	-	-	115.4
Belgium	(BFr)	50.1114	+0.0211	721 - 507	50.1660	50.0310	50.0884	0.6	50.0014	0.9	49.5214	1.2	117.1
Denmark	(DKr)	9.5431	+0.0726	400 - 461	9.5494	9.5183	9.5413	0.2	9.548	-0.2	9.5349	0.1	117.0
Finland	(FM)	7.5156	+0.0473	071 - 240	7.5270	7.4620	-	-	-	-	-	-	88.1
France	(FFr)	8.3716	+0.0107	688 - 743	8.3802	8.3488	8.3706	0.1	8.3633	0.4	8.3011	0.8	110.0
Germany	(DM)	2.4368	+0.0027	358 - 373	2.4382	2.4298	2.4355	0.5	2.4317	0.9	2.4002	1.5	126.4
Greece	(Dr)	375.656	+0.592	557 - 755	375.930	372.694	-	-	-	-	-	-	-
Ireland	(I£)	1.0143	+0.0032	136 - 149	1.0157	1.0089	1.0141	0.2	1.0137	0.2	1.0156	-0.1	104.8
Italy	(L)	2528.24	+12.32	705 - 942	2529.50	2512.04	2534.64	-3.0	2545.64	-2.8	2586.19	-2.7	73.3
Luxembourg	(LFr)	50.1114	+0.0211	721 - 507	50.1660	50.0310	50.0884	0.6	50.0014	0.9	49.5214	1.2	117.1
Netherlands	(Fl)	2.7295	+0.001	286 - 303	2.7314	2.7236	2.7263	0.6	2.7245	0.7	2.6929	1.3	120.9
Norway	(NKr)	10.6819	+0.0203	786 - 852	10.7068	10.6410	10.6816	0.0	10.6849	-0.1	10.684	0.0	85.6
Portugal	(Es)	248.775	+0.253	673 - 877	248.876	248.155	250.505	-8.3	253.685	-7.9	-	-	-
Spain	(Pta)	203.439	+0.39	367 - 510	203.515	202.832	203.809	-2.2	204.454	-2.0	207.349	-1.9	85.6
Sweden	(SKr)	11.6741	+0.0599	644 - 838	11.7044	11.6024	11.6926	-1.9	11.7306	-1.9	11.8926	-1.9	75.7
Switzerland	(SFr)	2.0643	+0.0012	634 - 651	2.0669	2.0557	2.061	1.9	2.0538	2.0	2.0117	2.6	120.6
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	79.8
Ecu	-	1.2801	+0.0017	795 - 806	1.2807	1.2771	1.28	0.0	1.2805	-0.1	1.2735	0.5	-
SDR†	-	0.931788	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5633	+0.0015	630 - 636	1.5650	1.5610	-	-	-	-	-	-	-
Brazil	(R)	1.3427	+0.0087	409 - 444	1.3446	1.3315	-	-	-	-	-	-	-
Canada	(C$)	2.1510	+0.0035	503 - 517	2.1517	2.1454	2.1512	+0.1	2.1501	0.2	2.1499	0.1	86.1
Mexico	(New Peso)	5.3871	+0.0051	838 - 903	5.3910	5.3760	-	-	-	-	-	-	-
USA	($)	1.5631	+0.001	628 - 633	1.5654	1.5610	1.5631	0.0	1.5628	0.1	1.5587	0.3	62.6
Pacific/Middle East/Africa													
Australia	(A$)	2.0571	+0.0008	560 - 581	2.0610	2.0507	2.0592	-1.2	2.062	-0.8	2.0759	-0.9	-
Hong Kong	(HK$)	12.0850	+0.0077	823 - 877	12.1032	12.0697	12.078	0.9	12.0717	0.4	12.0265	0.5	-
India	(Rs)	49.0407	+0.0391	289 - 524	49.1030	48.9600	-	-	-	-	-	-	-
Japan	(Y)	153.781	-	697 - 824	154.310	153.660	153.331	3.4	152.341	3.7	147.221	4.3	190.5
Malaysia	(M$)	3.9967	+0.0011	953 - 981	4.0034	3.9932	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.5201	+0.0029	186 - 215	2.5221	2.5166	2.5248	-2.2	2.534	-2.2	2.5539	-1.3	-
Philippines	(Peso)	37.1225	+0.0238	258 - 192	37.5600	36.7200	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8628	+0.004	614 - 641	5.8710	5.8552	-	-	-	-	-	-	-
Singapore	(S$)	2.2905	+0.0005	893 - 919	2.2927	2.2873	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.5282	+0.002	261 - 302	5.5386	5.5228	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.5367	+0.0307	200 - 534	6.5554	6.5042	-	-	-	-	-	-	-
South Korea	(Won)	1242.39	+0.64	211 - 267	1244.18	1240.84	-	-	-	-	-	-	-
Taiwan	(T$)	40.9910	+0.0192	626 - 194	41.0422	40.9203	-	-	-	-	-	-	-
Thailand	(Bt)	39.0895	-	809 - 981	39.1740	39.0730	-	-	-	-	-	-	-

†SDR rates for Nov 23. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100.Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 25		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan Index
Europe													
Austria	(Sch)	10.9735	+0.005	710 - 760	10.9800	10.9380	10.968	0.8	10.9485	0.9	10.852	1.1	104.5
Belgium	(BFr)	32.0600	-0.007	400 - 800	32.0950	31.9950	32.04	0.7	31.99	0.8	31.75	1.0	106.0
Denmark	(DKr)	6.1054	+0.0041	044 - 064	6.1065	6.0660	6.1047	0.1	6.1079	-0.2	6.1119	-0.1	105.1
Finland	(FM)	4.8083	+0.0272	036 - 129	4.8176	4.7644	4.8055	0.7	4.7998	0.7	4.7928	0.3	83.2
France	(FFr)	5.3569	+0.0034	550 - 568	5.3590	5.3360	5.355	0.2	5.3505	0.4	5.3219	0.6	106.3
Germany	(D)	1.5588	+0.0007	586 - 591	1.5596	1.5540	1.5581	0.6	1.5557	0.8	1.5389	1.3	107.1
Greece	(Dr)	240.335	+0.225	310 - 360	240.360	238.250	243.035	-13.5	248.385	-13.4	269.085	-12.0	68.5
Ireland	(I£)	1.5412	-0.0039	404 - 419	1.5487	1.5391	1.5415	-0.2	1.542	-0.2	1.5375	0.2	-
Italy	(L)	1617.50	+6.85	700 - 800	1618.05	1606.45	1621.45	-2.9	1628.5	-2.7	1664	-2.9	74.0
Luxembourg	(LFr)	32.0600	-0.007	400 - 800	32.0950	31.9950	32.04	0.7	31.99	0.9	31.75	1.0	106.0
Netherlands	(Fl)	1.7463	-0.0004	460 - 465	1.7475	1.7419	1.7465	0.5	1.743	0.7	1.7265	1.1	105.7
Norway	(NKr)	6.8340	+0.0086	330 - 350	6.8480	6.8050	6.8412	-1.3	6.853	-1.1	6.861	-0.4	95.8
Portugal	(Es)	159.160	+0.06	120 - 200	159.270	158.780	159.735	-4.3	160.86	-4.3	164.41	-3.3	95.4
Spain	(Pta)	130.155	+0.16	130 - 180	130.180	129.730	130.38	-2.1	130.8	-2.0	132.905	-2.1	80.6
Sweden	(SKr)	7.4688	+0.0336	638 - 738	7.4870	7.4184	7.48	-1.8	7.5043	-1.9	7.6228	-2.1	91.6
Switzerland	(SFr)	1.3207	-0.0001	203 - 210	1.3230	1.3157	1.3185	2.0	1.314	2.0	1.2899	2.3	106.3
UK	(£)	1.5631	+0.001	628 - 633	1.5654	1.5610	1.5631	0.0	1.5628	0.1	1.5587	0.3	86.3
Ecu	-	1.2211	-0.0003	208 - 214	1.2246	1.2205	1.2211	0.0	1.2214	-0.1	1.2249	-0.3	-
SDR†	-	1.46738	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.0002	+0.0003	001 - 002	1.0002	1.0000	-	-	-	-	-	-	-
Brazil	(R)	0.8580	+0.005	580 - 600	0.8600	0.8560	-	-	-	-	-	-	-
Canada	(C$)	1.3762	+0.0014	759 - 764	1.3764	1.3735	1.3759	0.2	1.3765	0.2	1.3797	-0.3	82.7
Mexico	(New Peso)	3.4465	+0.001	450 - 480	3.4550	3.4380	3.4475	+0.3	3.4493	-0.3	3.4567	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.1
Pacific/Middle East/Africa													
Australia	(A$)	1.3161	-0.0003	156 - 165	1.3189	1.3123	1.3169	-0.7	1.3187	-0.8	1.3314	-1.2	89.1
Hong Kong	(HK$)	7.7517	-	312 - 322	7.7322	7.7310	7.7297	0.3	7.7285	0.2	7.7362	-0.1	-
India	(Rs)	31.3750	+0.005	725 - 775	31.3775	31.3700	31.445	-2.7	31.59	-2.7	-	-	-
Japan	(Y)	98.7550	+0.33	400 - 900	98.7900	98.3300	98.485	3.4	97.885	3.6	94.8	4.0	151.1
Malaysia	(M$)	2.5570	-0.0009	565 - 575	2.5585	2.5565	2.564	1.4	2.5495	1.2	2.5775	-0.8	-
New Zealand	(NZ$)	1.6123	+0.0008	116 - 129	1.6129	1.6100	1.6133	-0.7	1.6157	-0.9	1.6247	-0.8	-
Philippines	(Peso)	23.7500	-	000 - 000	24.0000	23.5000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7509	+0.0002	506 - 511	3.7511	3.7506	3.7545	-1.1	3.7614	-1.1	3.7758	-0.7	-
Singapore	(S$)	1.4654	-0.0006	649 - 659	1.4680	1.4645	1.4639	1.3	1.4604	1.4	1.4439	1.5	-
S Africa (Com.)	(R)	3.5368	-0.001	360 - 375	3.5375	3.5360	3.5523	-5.3	3.5844	-5.4	3.7483	-6.0	-
S Africa (Fin.)	(R)	4.1820	+0.017	720 - 920	4.1920	4.1600	4.21	-8.0	4.2545	-6.9	4.492	-7.4	-
South Korea	(Won)	794.850	+0.1	800 - 900	795.000	794.800	797.85	-4.5	801.35	-3.3	819.85	-3.1	-
Taiwan	(T$)	26.2250	-0.0045	110 - 390	26.2390	26.1900	26.245	-0.9	26.285	-0.9	-	-	-
Thailand	(Bt)	25.0350	+0.0105	250 - 450	25.0450	25.0250	25.0645	-1.4	25.1555	-1.9	25.56	-2.1	-

†SDR rate for Nov 23. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Nov 23. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

November 25	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4 7/8	4 5/8	5 3/16	5 7/16	9	7.40	4.50	-
week ago	4 7/8	4 13/16	5 3/16	5 1/2	6 1/8	7.40	4.50	-
France	5 5/16	5 7/16	5 5/8	5 3/4	8 3/16	5.00	-	6.75
week ago	5 3/16	5 1/4	5 5/8	5 7/8	6 1/16	5.00	-	6.75
Germany	4.85	4.95	5.15	5.25	5.55	6.00	4.50	4.95
week ago	4.93	4.95	5.15	5.25	5.80	6.00	4.50	4.85
Ireland	5 1/16	5 1/4	5 5/8	6 1/16	7 1/8	-	-	6.25
week ago	5 3/16	5 1/4	5 5/8	6 1/16	7 1/4	-	-	6.25
Italy	8 3/4	8 1/2	8 3/4	9 1/4	10 1/16	-	7.50	8.20
week ago	8 5/16	8 1/2	8 5/8	9 1/16	9 7/8	-	7.50	8.20
Netherlands	4.84	5.04	5.19	5.34	5.72	-	5.25	-
week ago	4.84	5.04	5.24	5.37	5.76	-	5.25	-
Switzerland	3 1/2	3 5/8	3 5/8	4 3/16	4 1/2	9.625	3.50	-
week ago	3	3 3/4	3 5/8	4 3/16	4 1/2	8.625	3.50	-
US	5 7/16	5 3/8	5 7/8	6 1/4	6 3/4	-	4.75	-
week ago	5 1/2	5 3/8	5 7/8	6 3/16	6 3/4	-	4.75	-
Japan	2 1/4	2 1/4	2 3/8	2 1/2	2 9/16	-	1.75	-
week ago	2 1/16	2 1/8	2 1/4	2 3/8	2 9/16	-	1.75	-
$ LIBOR FT London								
Interbank Fixing	-	5 3/4	5 5/8	6 3/16	6 9/16	-	-	-
week ago	-	5 3/4	5 5/8	6 3/8	6 13/16	-	-	-
US Dollar CDs	-	5.47	5.70	6.05	6.67	-	-	-
week ago	-	5.47	5.75	6.09	6.72	-	-	-
SDR Linked Ds	-	3 3/4	3 5/8	3 3/4	4	-	-	-
week ago	-	3 3/4	3 5/8	3 3/4	4	-	-	-

ECU Linked Ds mid rates: 1 mth: 5 1/2; 3 mths: 5 5/8; 6 mths: 5 7/8; 1 year: 6 1/2. 4 LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster. Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Nov 25	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	4 13/16 - 4 11/16	4 13/16 - 4 11/16	4 15/16 - 4 13/16	5 1/8 - 5	5 3/8 - 5 1/4	6 - 5 7/8
Danish Krone	5 3/4 - 5 1/2	5 3/4 - 5 1/2	5 3/4 - 5 1/2	6 1/4 - 6	6 5/8 - 6 3/8	7 1/4 - 7
D-Mark	5 1/16 - 4 15/16	5 - 4 7/8	5 - 4 7/8	5 5/32 - 5 1/32	5 1/4 - 5 1/8	5 9/16 - 5 7/16
Dutch Guilder	5 - 4 7/8	5 1/16 - 4 15/16	5 1/32 - 4 15/16	5 1/4 - 5 1/8	5 3/8 - 5 1/4	5 13/16 - 5 5/8
French Franc	5 3/8 - 5 1/4	5 7/16 - 5 5/16	5 7/16 - 5 5/16	5 5/8 - 5 1/2	5 3/4 - 5 5/8	6 3/16 - 6 1/16
Portuguese Esc.	9 - 8 11/16	9 - 8 11/16	9 1/8 - 8 7/8	10 1/8 - 9 7/8	10 7/16 - 10 3/16	10 5/8 - 10 3/8
Spanish Peseta	7 9/16 - 7 7/16	7 9/16 - 7 7/16	7 9/16 - 7 7/16	7 7/8 - 7 3/4	8 3/16 - 8 1/16	9 1/16 - 8 15/16
Sterling	5 1/4 - 5	5 1/4 - 5 1/8	5 5/8 - 5 1/2	6 1/4 - 6	6 9/16 - 6 7/16	7 5/16 - 7 3/16
Swiss Franc	3 7/8 - 3 3/4	3 5/8 - 3 1/2	3 5/8 - 3 1/2	3 13/16 - 3 11/16	4 3/16 - 4 1/16	4 1/2 - 4 3/8
Can. Dollar	5 3/16 - 5 1/8	5 1/16 - 5 1/8	5 3/8 - 5 1/4	5 3/4 - 5 5/8	6 3/8 - 6 1/4	7 3/16 - 7 1/16
US Dollar	5 1/2 - 5 3/8	5 9/16 - 5 7/16	5 5/8 - 5 1/2	5 13/16 - 5 11/16	6 5/16 - 6 3/16	6 15/16 - 6 13/16
Italian Lira	9 - 7 1/2	8 3/16 - 8 1/16	8 7/16 - 8 5/16	8 3/4 - 8 5/8	9 1/4 - 9 1/8	10 1/16 - 9 15/16
Yen	2 1/4 - 2 3/16	2 9/32 - 2 7/32	2 5/16 - 2 1/4	2 3/8 - 2 5/16	2 1/2 - 2 7/16	2 23/32 - 2 21/32
Asian $Sing	2 3/4 - 2 1/2	4 - 3 7/8	4 1/8 - 4	4 5/16 - 4 3/16	4 1/2 - 4 3/8	4 3/4 - 4 5/8

Short term rates are call for the US Dollar and Yen, others: two days' notice.

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.96	93.84	-	93.96	93.83	107,224	380,975
Mar	93.39	93.40	-	93.40	93.37	196,646	467,885
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

US TREASURY BILL FUTURES (IMM) $1m per 100%

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Nov 25		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.04	16.71	4.861	2.024	5045	5.446	21.31	496.5	405.9	23.29	4.119	1.996	4.293	3.119	307.9	2.564
Denmark	(DKr)	52.51	10	8.772	2.553	1.063	2649	2.860	11.19	260.9	213.1	12.23	2.163	1.048	2.254	1.638	161.7	1.341
France	(FFr)	59.86	11.40	10	2.910	1.211	3020	3.260	12.79	297.1	243.0	13.94	2.466	1.195	2.570	1.867	184.3	1.529
Germany	(DM)	20.57	3.917	3.436	1	0.416	1036	1.120	4.384	102.1	83.50	4.791	0.847	0.411	0.883	0.642	63.34	0.525
Ireland	(I£)	49.42	9.411	8.255	2.402	1	2493	2.691	10.53	245.3	200.6	11.51	2.036	0.986	2.121	1.541	152.2	1.262
Italy	(L)	1.982	0.377	0.331	0.096	0.040	100.	0.108	0.422	9.838	8.046	0.462	0.082	0.040	0.085	0.062	6.104	0.051
Netherlands	(Fl)	18.36	3.497	3.067	0.893	0.372	926.3	1	3.914	91.13	74.53	4.276	0.756	0.366	0.788	0.573	55.54	0.469
Norway	(NKr)	46.92	8.935	7.838	2.281	0.949	2367	2.555	10	232.8	190.4	10.93	1.933	0.936	2.014	1.463	144.5	1.199
Portugal	(Es)	20.15	3.837	3.366	0.979	0.408	1016	1.097	4.294	100.	81.79	4.692	0.830	0.402	0.865	0.628	62.04	0.515
Spain	(Pta)	24.64	4.692	4.119	1.196	0.499	1243	1.342	5.251	122.3	100.	5.737	1.015	0.492	1.058	0.768	75.88	0.629
Sweden	(SKr)	42.94	8.177	7.173	2.087	0.869	2166	2.338	9.152	213.1	174.3	10	1.769	0.857	1.843	1.339	132.2	1.097
Switzerland	(SFr)	24.28	4.624	4.056	1.180	0.491	1225	1.322	5.174	120.5	98.55	5.654	1	0.484	1.042	0.757	74.76	0.620
UK	(£)	50.11	9.543	8.371	2.436	1.014	2528	2.729	10.69	248.7	203.4	11.67	2.064	1	2.151	1.563	154.3	1.280
Canada	(C$)	23.30	4.437	3.892	1.132	0.471	1175	1.269	4.965	115.6	94.56	5.425	0.960	0.465	1	0.727	71.73	0.595
US	($)	32.06	6.106	5.356	1.559	0.649	1617	1.746	6.833	159.1	130.1	7.466	1.321	0.640	1.376	1	98.72	0.819
Japan	(Y)	32.48	6.185	5.425	1.579	0.657	1638	1.769	6.922	161.2	131.8	7.563	1.338	0.648	1.394	1.013	100.	0.830
Ecu		39.15	7.455	6.540	1.903	0.792	1975	2.132	8.344	194.3	158.9	9.117	1.613	0.781	1.680	1.221	120.5	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.6433	0.6418	-0.0023	0.6437	0.6411	23,562	96,838
Mar	0.6436	0.6428	-0.0024	0.6436	0.6423	419	6,597
Jun	0.6448	0.6451	-0.0023	0.6448	0.6448	17	1,337

Pound in New York

Nov 25	---Close---	-- Prev. close --
£ spot	1.5630	1.5700
1 mth	1.5629	1.5699
3 mth	1.5626	1.5696
1 yr	[illegible]	[illegible]

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Companies & Finance page in today's edition.

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

STERLING FUTURES (IMM) £62,500 per £

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
1.525	3.87	4.30	4.78	0.11	0.56	1.06
1.550	1.91	2.56	3.17	0.60	1.29	1.91
1.575	0.85	1.36	1.99	1.83	2.63	3.11
1.600	0.14	0.62	1.16	3.75	4.22	4.73
1.625	-	0.23	0.61	6.09	6.31	6.66
1.650	-	0.06	0.28	8.50	8.56	8.75

Previous day's vol., Calls N/A Puts N/A . Prev. day's open int., Calls N/A Puts N/A

BANK RETURN

BANKING DEPARTMENT	Wednesday November 23,1994	Increase or decrease for week
	£	£
Liabilities		
Capital	14,553,000	
Public deposits	687,513,961	-393,487,587
Bankers deposits	1,705,698,549	+67,962,972
Reserve and other accounts	3,390,248,236	+332,376,582
	5,798,013,746	+6,851,967
Assets		
Government securities	1,045,024,789	+870,000
Advance and other accounts	2,222,075,867	-1,137,789,252
Premise, equipment and other secs	2,525,468,763	+1,146,185,602
Notes	5,295,676	-2,434,822
Coin	148,651	-8,561
	5,798,013,746	+6,851,967
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	18,344,704,324	+102,434,822
Notes in Banking Department	5,295,676	-2,434,822
	18,350,000,000	+100,000,000
Assets		
Other Government securities	12,390,636,843	+1,328,951,399
Other Securities	5,959,363,157	-1,228,951,399
	18,350,000,000	+100,000,000

FT GOLD MINES INDEX

	Nov 25	% chg since 21/12/93	Nov 24	Mkt Cap $bn	% of Gold Mines	Gross div yield %	52 week High	52 week Low
Gold Mines Index (34)	1934.33	-13.3	1915.97	47.37	100.00	2.23	2367.46	1762.02
Regional Indices								
Africa (18)	3126.18	-5.4	3167.92	16.08	33.94	4.39	3711.87	2304.45

UK INTEREST RATES

LONDON MONEY RATES

BANK OF ENGLAND TREASURY BILL TENDER

BASE LENDING RATES

UK GILTS PRICES

Other Fixed Interest

STOCK INDICES

LONDON RECENT ISSUES: EQUITIES

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1994 High	1994 Low	Stock	Closing price p	+or-
77	Nil	30/12	3pm	2pm	Apollo Metals	2pm	
295	Nil	6/1	80pm	34pm	Laird	34pm	-1
27	Nil	28/11	3½pm	2½pm	Martin Intl	2½pm	
57	Nil	3/1	5pm	3pm	OMI	3pm	
85	Nil	23/12	15pm	6pm	Pressac	6pm	
285	Nil	6/1	57½pm	40pm	Seton Health.	40pm	

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 71) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

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FT MANAGED FUNDS SERVICE

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OTHER OFFSHORE FUNDS

	Selling Price	Buying Price	Yield Gross	Cityline
ATSP Management Ltd				
[illegible]	$40.78		–	47417
Abtrust Fund Mngrs (Guernsey) Ltd				
Adig Investment				
Asian Malaysian Growth Fd (Cayman) Ltd				
[illegible]	$18.2385		–	44489
Alliance Capital				
Allied Dunbar International Fund Mngrs				
Alpha Fund Management Ltd				

[illegible]

OFFSHORE INSURANCES

[illegible]

LONDON SHARE SERVICE

BANKS

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
ABN Amro Fl	□	£22½	-.2	Q81%	φ	Sep May	9'93	–
ANZ A$		197	0.4	Q25c	φ	Jan	0.12	–
Abbey National	†N□	407	-6.0	15.5	2.1	May Oct	15.8	5411
Allied Irish £	♣†N□	247	-1.6	Q53½%	2.7	Oct May	15.8	1364
Anglo Irish £	N□	55	——	Q7.5%	φ	Jan Jul	8.8	1365
Asahi Y	□	676½	2.0	Q14%	φ	Jan Dec	12'92	3046
Banco Bil Viz Pta	□	£16⅜	-.7	Q27.2%	2.7	JyOcJaAp	7'93	–
Banco Sant Pta		£26½	-8.1	Q38%	2.0	MyAuNoDe	1.8	–
Bk Ireland £	♣†N□	285xd	-1.0	Q14.7%	3.2	Jan Jul	21.11	1399
Bank Scotland	♣†N□	202xd	-6.5	5.31	3.3	Jul Dec	17.10	1742
9¼pc Pf		108¾xd	0.5	9¼%	–	May Nov	17.10	1402
9¼pc Pf		114xd	0.4	9¼%	–	May Nov	17.10	1695
Barclays	♣†N□	557	-2.7	16.65	1.9	Oct May	12.9	1794
Dai Ichi Kan Y	□	£10⅝	-2.4	Q18%	1.2	Jun Dec	9'93	–
Deutsche DM	□	£301½	-2.6	Q32%	–	May	5'93	–
Espirito Santo	□	29½	-2.4	Q80c	5.2	Jun	6'93	5187
First Nat Fin	N□	64	-3.0	1.5	–	Mar Aug	16.7	2571
6.3pc Cv Pf		72	——	6.3%	–	Jul Jan	9.9	2570
7pc Cv Pf		119	-3.3	7.0	–	Jul Jan	9.9	1408
Fuji Bank Y	□	1246¾	-3.3	Q17%	φ	Dec Jun	7'93	–
HSBC HK	†N□	714	-5.6	24.6	2.4	Nov Jun	8.8	2798
HSBC (75p Shs)	†N□	715	-5.5	24.8	2.4	Nov Jun	5.9	2776
Lloyds	†N□	554	-5.2	23.0	2.1	Oct May	8.8	3171
Mitsubishi Y	□	£14⅛	-.6	Q17%	φ	Jun Dec	12'92	–
Mits Tst & Bk Y	□	942¼	-1.4	Q16%	12.4	Jun Dec	12'92	–
Mitsui Tst & Bk Y	□	820¼	-4.2	Q17%	5.5	Jun Dec	12'92	–
Nat Aust A$		524	2.7	Q74c	φ	Jan Jul	21.6	–
NatWest	†N□	509	-5.9	19.4	2.4	Oct May	8.8	3463
Ottomans FFr		821	-1.2	Q129%	φ	May	25.5	–
Ryl Bk Scotland	♣†N□	423	-7.4	12.9	1.9	Feb Jul	16.5	3874
Sakura Y	□	28⅜	-1.4	Q17%	3.0	Dec Jun	12'92	–
Sanwa Y	□	£12⅜	-2.0	Q18%	2.9	Jun Dec	12'92	–
Standard Chartd	†N□	279	-5.1	6.37	4.2	Jan Oct	22.8	4094
7 3/8pc Prf		86½	0.3	7.37	–	Apr Oct	22.8	1710
Sumitomo Y	□	£10⅛	-3.3	Q17%	6.7	Jun Dec	12'92	–
Sumitomo Tst Y	□	813	-.3	Q17%	φ	Jun Dec	12'92	–
TSB	†N□	218½	-5.2	8.07	2.5	Apr Oct	15.8	4320
Tokai Y	□	27⅛	1.0	Q18%	2.3	Jun Dec	12'92	–
Toyo Tst & Bk Y	□	892½	-9.4	Q15½%	2.2	Jun Dec	6'93	–
Westpac A$		209½	5.2	Q12c	φ	Jul Jul	7.0	–
Yasuda Tst Bk Y	†□	496	-1.7	Q16½%	2.3	Jun Dec	12'92	–

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

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LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

LEISURE & HOTELS - Cont.

OIL EXPLORATION & PRODUCTION - Cont.

PROPERTY - Cont.

RETAILERS, GENERAL - Cont.

TRANSPORT - Cont.

SPIRITS, WINES & CIDERS

WATER

OIL, INTEGRATED

SUPPORT SERVICES

OTHER FINANCIAL

AMERICANS

LIFE ASSURANCE

MEDIA

CANADIANS

OTHER SERVICES & BUSINESSES

TELECOMMUNICATIONS

SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		£32	—	Q375c	1.8	Oct Apr	3'93	–
Barlow	‡	£5¼	1.1	Q58c	◆	Jan Jul	20.6	–
Gold Flds Prop R		118xa	—	Q52c	◆	Feb Sep	31.1	–
HK Props		98	—	Q87.1c	–	Feb Sep	10'93	–
SASOL	♥	646	1.1	Q78c	–	Oct	9'93	–
SA Brews	†	£15¼xd	—	Q163c	2.2	Jun Dec	21.11	–
Tiger Oats		725	1.7	Q85c	◆	Jan Jul	6.6	–
Tongaat-Hulett	†h	726	—	Q89c	2.4	Feb Aug	4.1	–

TEXTILES & APPAREL

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FT-SE Actuaries Share Indices.

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service

RETAILERS, FOOD

PHARMACEUTICALS

INVESTMENT COMPANIES

MERCHANT BANKS

PRINTING, PAPER & PACKAGING

RETAILERS, GENERAL

OIL EXPLORATION & PRODUCTION

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service

TOBACCO

TRANSPORT

LEISURE & HOTELS

PROPERTY

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a *member of the Financial Times Group.*

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless *otherwise indicated.*

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross *dividend costs to profit after taxation, excluding exceptional profits/losses* but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ *Indicates the most actively traded stocks. This includes UK stocks* where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ◆ Figures or *report awaited*
- ♥ Rule 2.1(4)(a) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ⅃T Rule 4.2(a) UK & Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend.
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend.
h Assumed dividend after scrip issue.
m Interim higher than previous total.
n Rights issue pending
q Earnings based on preliminary figures.
r Dividend excludes a special payment.
t Indicated dividend; cover relates to previous dividend.
u Forecast, or estimated annualised dividend rate, cover based on previous year's *earnings.*
v Not subject to ACT.
z Dividend includes a special payment: Cover does not apply to special payment.
F Dividend based on prospectus or other official estimates for 1994-95.
G Assumed dividend after pending scrip and/ or rights issue.
H Dividend based on prospectus or other official estimates for 1993.
& Dividend based on prospectus or other official estimates for 1994
L Estimated annualised dividend, cover based on latest annual earnings.
M Dividend based on prospectus or other official estimates for 1993-94.
N Figures based on IIMR "Headline Earnings"
P Figures based on prospectus or other official estimates for 1994.
Q Gross.
R Forecast annualised dividend, cover based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend total to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xc ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1225 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Ennemix (Ext. Inds.), Whitchurch (Food Man.), Prolific (Inv. Tsts.), Hambros Smaller Asian Ord. and Warrants (Other Inv. Tsts.) and Servisair (Suport Services) Deletion: American Cyanamid (Americans).

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4pm close Nov 25

1994 High	1994 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
17⅜	11⅞	AAR	0.48	4.0	21	10	12⅛	12	12	
18⅛	12⅝	A.L.Labs A	0.16	1.1	30	76	17	16⅞	16⅞	+⅛
79⅜	57⅝	AMP	1.68	2.4	21	1157	70⅞	69⅞	70⅞	+⅞
72¾	43⅛	AMR			160	1076	50½	49⅝	49⅞	-⅛
5	3⅜	ARX			19	95	3⅞	3¾	3¾	
56⅛	38⅝	ASA x	2.00	4.5	29	307	44¼	43½	44¼	+⅞
33	25⅜	AbbotL	0.76	2.4	17	2283	31⅛	31¼	21½	+¼
15¾	11⅜	Abitibi Pr	0.50	4.0	11	114	12⅝	12⅛	12⅝	+½
23⅝	17¾	AGM Ind	0.52	2.6	12	0	20⅜	20¼	20¼	-⅛
18	11⅛	Acpincole			18	189	13⅜	12⅞	13⅜	+½
31	21¼	ACE Ltd	0.44	2.0	21	112	21⅝	21⅝	21⅛	+⅛
12½	8	ACM Gvt In	1.08	11.4	8	226	9⅝	9⅛	9⅝	+⅛
16⅛	6⅞	ACM GvOpp	0.80	16.8		35	7⅜	7⅜	7⅛	
10⅝	6¼	ACM Gvt Sp	0.96	13.0		356	7½	7¼	7⅜	+⅛
12	7⅝	ACM Gvt Se	1.08	12.0		815	8¾	8⅞	8¼	+⅛
11¾	7⅜	ACM Man	1.08	12.7		77	8½	8½	8½	+⅛
6¾	8	ACM Managd	0.72	8.7		21	8¼	8¼	8¼	
15½	6¾	AcmeCv	0.44	4.0	22	40	11	10⅝	11	+⅛
13⅝	5½	Acme Elect			13	48	13	12⅛	12¾	
28⅞	23	Acordia x	0.60	2.1	14	7	28⅝	28½	28½	
13¾	9¼	Action	0.36	3.7	2	360	9¾	9⅝	9¾	+¼
18⅞	11¾	Acxson			25	148	15⅞	15⅜	13½	-⅜
18⅞	15¾	Adams Expr x	0.88	4.2	0	40	10	15⅞	18	+¼
64	46½	Ad Micro x	5.00	5.5		6	54¼	53⅞	54⅛	+2¼

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Continued on next page

NYSE COMPOSITE PRICES

4pm close Nov 25

Continued from previous page

1994 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
9 3/8	4 5/8	Salant Cp			10	5	5	0	3	
49 7/8	31 1/4	Sallie Mae	1.46	4.5	0	1126	32 3/8	32 1/8	32 3/8	-1/8
13 7/8	[illegible]	Salomon Br x	0.38	3.4	25	391	11 1/4	[illegible]	11 1/8	+1/4
52 1/4	35 5/8	Salomn	0.84	1.7	23	1109	37	36 5/8	36 7/8	-1/4
25	17 1/2	SnDgGE	1.52	7.7	19	591	19 7/8	19 1/2	19 3/4	+1/4
18	7 1/2	SantaFeEPrs	0.18	1.9	9	32	8 5/8	8 1/2	8 1/2	
17 7/8	12 1/2	SFeGo			38	4276	13	12 5/8	13	+3/8
33 1/4	21 7/8	SFePPipe	2.00	6.5	8	13	33	32 7/8	33	+1/4
26 1/4	12 1/8	SanFeP	0.18	8.8	13	6507	18 3/8	18 1/8	18 3/8	+1/4
26	19 3/8	SaraLee x	0.68	2.7	54	4205	24 7/8	24 1/2	24 7/8	+1 1/8
50 1/8	41	Scana Corp	2.82	0.8	12	130	42 3/4	42 1/2	42 3/4	+3/8
20 1/2	12 1/2	Scecrp	1.00	7.1	9	1713	14 1/8	14	14	-1/8
44 5/8	31 3/4	ScherrerRP			29	416	42 3/4	40 7/8	42 3/8	+1 3/8
75 1/2	54 1/2	SchrPl	2.04	2.8	15	1705	74 5/8	73 5/8	73 7/8	+1/2
63	50 3/4	Schlmb	1.20	2.2	25	1010	54 3/8	53 3/8	53 5/8	-5/8
37	23 3/4	Schwab(C)	0.28	0.9	14	1810	31 5/8	37 3/8	21 1/2	+1/4
10 1/4	6 1/8	Schweitzer			7	12	8	7 7/8	0	+1/8
22 5/8	12 7/16	SciAtl x	0.06	0.3	37	1408	20 1/4	19 7/8	20 1/8	+1/4
18 1/4	13	Scotsman	0.10	0.8	12	6	16 5/8	16 5/8	16 5/8	+1/4
67 3/8	37 3/4	ScottP x	0.80	1.3	19	673	63 5/8	62 5/8	63 3/8	+5/8
28 5/8	10 5/8	ScuddrNAsF	0.21	1.0		35	21 7/8	21 3/4	21 7/8	
12 5/8	8 3/8	ScuddrNEuF	0.19	1.8		149	9 1/8	8 7/8	9 1/8	+1/8
18 1/4	13 1/4	SeaCnB	0.70	5.3	8	30	13 1/2	13 1/4	13 1/4	
18 1/2	14 1/4	SeaC1.4625 x	1.46	10.2		6	14 1/2	14 1/8	14 3/8	+3/8
32 5/8	26 1/4	Seagrm	0.60	2.1	22	2181	28 3/8	28	28 1/4	+1/2
28 1/4	20 3/4	SeagullEn			35	369	21 1/8	21	21 1/8	+1/4
36 1/4	26 5/8	Sealed Air			28	90	34 7/8	34 3/4	34 7/8	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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[illegible]

NASDAQ NATIONAL MARKET

4pm close Nov 25

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AMEX COMPOSITE PRICES

4pm close Nov 25

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT GUIDE TO THE WEEK

28 MONDAY

Norway on a knife-edge

The Norwegian government and its allies in business and industry hope to pull off the surprise of the Nordic autumn by winning a Yes vote in the country's referendum on joining the European Union. With Austria, Finland and Sweden already having voted in favour of membership, Brussels is hoping Norway will make it a clean sweep of the applicant countries.

Russian first deputy prime minister Oleg Soskovets visits Japan to sign trade and investment accords designed to put some life back into economic ties between the two states. Soskovets has said that "political interests should be set aside as a subject of negotiations" – meaning he does not want to talk about the Kurile Islands, which Russia has had since the end of the last war and which Japan wants back.

UK politics: The government could fall if a rebellion by Eurosceptics in the ruling Conservative party forces a losing vote on increasing Britain's European Union budget contribution. If that happens, the cabinet has pledged to resign, precipitating a general election.

Mid-East peace: Yassir Arafat, chairman of the Palestine Liberation Organisation, meets Israeli foreign minister Shimon Peres in Brussels on the eve of a critical two-day meeting of international aid donors.

European Union foreign ministers prepare in Brussels for the European Council summit in Essen on December 9-10. Subjects include: Bosnia and a strategy for enlargement to central and eastern Europe. A draft agreement of Turkey's planned customs union with the EU, scheduled to take effect on January 1 1996, will also be discussed.

Dry crossing:

The English High Court begins hearing a request from Eurotunnel, operator of the Channel tunnel, for duty-free sales within the European Union to be declared unlawful. Duty-free sales are not allowed on Eurostar trains traversing the tunnel. Eurotunnel says present duty-free regulations give ferries and airlines an unfair advantage and are a nonsense in the single market.

Saleroom: A colourful landscape, Flower Garden, by the Austrian artist Gustav Klimt is the highlight of Christies' auction of Impressionist and Modern art in London tonight. Painted about 1906, it should top £4m.

FT Surveys: Pakistan and Energy Efficiency.

Holidays: Albania (Independence Proclamation Day), Panama.

29 TUESDAY

Britain awaits its Budget

Chancellor Kenneth Clarke (left) unveils his second Budget this afternoon against an unusually favourable background of stronger than expected economic growth and low inflation. In spite of the government's unpopularity, the chancellor is expected to refrain from cutting taxes and focus instead on cutting government expenditure and reducing the budget deficit in 1995-96 and subsequent years.

It is thought likely that Clarke – a self styled "son of the industrial Midlands" – will act to help small businesses as part of a strategy for sustained growth and low inflation.

Congress tackles Gatt: The US House of Representatives meets in a special "lame duck" session to vote for the implementing legislation giving approval for the Uruguay Round pact agreed last December. Supporters say they may round up almost 300 votes, well above the 218 that are needed for passage.

Then on Thursday, the Senate votes on the Uruguay Round legislation, which needs 60 out of 100 votes to pass. It is expected to be close, although the endorsement last week by Senate Republican leader Robert Dole should help to carry the day.

Mid-East peace: Israel and the Palestine Liberation Organisation start talks in Cairo on the next stage of Palestinian self-rule: the redeployment of Israeli troops out of areas of the West Bank that are still occupied, and the procedures for holding national Palestinian elections.

After a recent upsurge in violence and tension between the PLO and its Islamic opponents, Israel and the PLO are seeking ways of speeding implementation of the peace accords which are running some 9 to 12 months behind schedule.

Franco-German summit: Chancellor Helmut Kohl and President François Mitterrand will lead their respective delegations to the 64th Franco-German summit, a two-day affair in Bonn.

Foreign, defence and economic ministers are among those who will be speaking to each other about handing over the European Union presidency to France, the European council in Essen in early December, and the forthcoming summit of the Conference on Security and Co-operation in Europe to be held in Budapest on December 5-6.

FT Surveys: Bristol and Global Custody.

Holidays: Albania (Liberation Day), Liberia.

30 WEDNESDAY

Ireland seeks a government

Ireland's parliament is due to reconvene to vote on a new government, after the break-up two weeks ago of the Fianna Fail-Labour coalition and the resignation of Albert Reynolds as prime minister. He has been replaced as party leader by Bertie Ahern, the former finance minister, who hopes to replace him as prime minister as well.

Italy's Berlusconi government will hold a crucial meeting with trade union leaders. Its outcome will determine whether an eight-hour general strike goes ahead on December 2. The strike has been called to protest against the 1995 budget and in particular plans to cut benefits in Italy's state pensions system. The government is ready to make concessions but the unions will keep everyone guessing until the last minute – not least those planning to travel to Italy on Friday.

BCCI affair: Creditors of the failed Bank of Credit and Commerce International will be watching carefully as a planned settlement put forward by the liquidators Touche Ross goes before courts in Luxembourg. Further ratification of the deal, based on a $1.8bn contribution from the government of Abu Dhabi, is needed in London and the Cayman Islands. An earlier deal fell on appeal in Luxembourg.

Asylum in Europe: Justice and home affairs ministers of the European Union begin a two-day meeting in Brussels. They are expected to conclude two agreements on asylum policy, on minimum procedural guarantees and a draft model for bilateral readmission agreements with third countries.

There is some concern among human rights groups that the proposals fall short of international standards.

Saleroom: Anything by Beatrix Potter, the children's book writer and illustrator, is always much in demand and Sotheby's expects bids of up to £4,000 for a fragment of a diary she kept in August 1905. It covers her reaction to the death of her fiancé and publisher Norman Warne from leukaemia. A watercolour of Cinderella's coach (detail below) that she gave to Warne on the day he proposed in July 1905 is expected to fetch about £20,000.

Holidays: Philippines (Bonifacio Day).

Hands across Europe. Prime ministers John Major and Silvio Berlusconi demonstrate their aerial prowess

Ferguson

1 THURSDAY

Nato ministers meet

Nato foreign ministers in Brussels confer in the shadow of mounting US-European differences of policy on Bosnia, and arguments over how quickly the alliance should expand eastwards (to Dec 2). The US is expected to press for clearer and faster procedures for admitting members.

Andrei Kozyrev, Russian foreign minister, addresses the Western European Union in Paris. Kozyrev is expected to moot a new security order for Europe: he has recently talked of "surpassing" Nato and the CSCE in search of an all-European group.

Mexico's president-elect Ernesto Zedillo starts a six-year term, continuing the Institutional Revolutionary party's 66-year grip on the post. Zedillo's inauguration speech will stress stable economic growth and political and judicial reform as the theme of his presidency.

World Aids Day: The French government and World Health Organisation hold the Paris Aids Summit – 42 countries are expected to attend.

Saleroom: The autograph of Schumann's Second Symphony is auctioned at Sotheby's in London and may fetch £800,000 ($1.3m).

FT Surveys: Management Buy-Outs and Software at Work.

Holidays: Portugal (Independence Day).

2 FRIDAY

Strife in former Yugoslavia

Foreign ministers from the "contact group" – consisting of the US, Russia, the UK, France and Germany – try to reach agreement on how to promote a peace settlement in Bosnia and if possible Croatia as well. The meeting follows a warning from John Major, the UK prime minister, that the group must intensify its efforts because time is running out.

Russia, in a sharp disagreement with the US, has warned against further use of air power by Nato and blamed the Bosnian government for the latest fighting.

Georgia's president Eduard Shevardnadze and rebel Abkhaz leader Vladislav Ardzinba hold talks in Geneva with Boutros Boutros-Ghali, UN secretary-general, and Andrei Kozyrev, Russian foreign minister.

Negotiations between officials in Geneva in November produced some progress towards a political settlement, but none on the vexed issue of the return to Abkhazia of 250,000 refugees.

Saleroom: Sotheby's in London offers for sale a letter written by Alain-Fournier, author of the romantic novel Le Grand Meaulnes. It is the only known letter written to his first love Yvonne, the inspiration for the heroine of the same name in the novel. It is estimated up to £3,500 ($5,740).

Holidays: United Arab Emirates (National Day).

3-4 WEEKEND

Taiwan votes for governor

On Saturday, Taiwan holds for the first time popular elections for the mayors of Taipei and Kaohsiung cities and the governor of Taiwan province, the area outside the two biggest cities. The polls represent an important step in the island's democratisation and are seen as a vote of confidence in the ruling Kuomintang. They are also a gauge of public sentiment on relations with China, which regards Taiwan as a renegade province.

Japan's Diet is scheduled to finish its extraordinary session on Saturday, but it will probably be extended to ensure ratification of the Gatt Uruguay Round agreements.

Northern Ireland's hardline Democratic Unionist Party holds its annual conference in Dungannon on Saturday. Its leader, the Rev Ian Paisley, is becoming increasingly isolated in opposing the Northern Ireland peace process being orchestrated by the governments in London and Dublin.

The Swiss vote on Sunday on a law which would give the police powers to detain foreigners indefinitely. Tourists need not worry, however. It is aimed mainly at drug dealers who, once inside Switzerland, throw their passports away and apply for asylum. Zurichers' patience with the open drug scene seems to be running out.

Compiled by Patrick Stiles and Angela Bleasdale. Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Wednesday: The initial estimate of US GDP growth in the third quarter is expected to be revised upwards, from 3.4 per cent to 3.5 per cent. A more substantial upward revision would spark speculation about further interest rate increases from the Federal Reserve.

Thursday: The purchasing managers' index is one of the month's earliest economic indicators in both the UK and the US. The UK version should give a further guide to the price pressures on the corporate sector; the Bank of England has expressed concern that output price inflation might be passed through to the High Street. Prices are also a concern in the US; in October, the index's prices component was at its highest level since June 1988.

Friday: The increase in non-farm payroll employment has been one of the most closely-watched US indicators. Last month, the figure which provoked inflationary concern was a jump in average hourly earnings. A fall in the unemployment rate from October's 5.8 per cent would also be seen as a sign of futura price pressures. UK official reserves are expected to have edged up by $25m in November.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	US	Oct existing home sales	-	3.97m
Tues	US	Nov consumer confidence	87.7	87.6
Nov 29	US	Johnson redbook w/e Nov 26	-	-2%
	Japan	Oct unemployment rate	3%	3%
	Japan	Oct job offers/seekers ratio	0.65	0.64
	Japan	Oct retail sales**	-2.9%	-2.6%
	Japan	Nov w'sale price indx (2nd 10 days)	-	0.0
	Aus'lia	Sept current a/c†	-A$1.9bn	-A$1.6bn
	Sweden	Oct producer prices indx**	5.6%	5.5%
Wed	US	3rd qtr GDP prelim	3.5%	3.4%
Nov 30	US	3rd qtr GDP deflator prelim	1.6%	1.6%
	US	3rd qtr after tax corporate profit	6%	7.3%
	US	Nov Chicago ass purch managers†	-	64.3%
	US	Oct export price indx	-	0.4%
	US	Oct import price indx	-	-0.8%
	US	Nov agriculture prices	-	-1.5%
	Japan	Oct construction orders**	-	-7%
	Japan	Oct housing starts**	-0.8%	-2.7%
	Japan	Oct construction starts**	-	-4.7%
	Japan	Oct industrial production†	0.8%	-1.3%
	Japan	Oct shipments†	-	-2.8%
	France	Oct unemployment rate	12.7%	12.7%
	France	Oct jobseekers*	0.1%	0.4%
	Aus'lia	3rd qtr GDP – actual†	1%	0.9%
Thur	US	Oct personal income	0.9%	0.6%
Dec 1	US	Oct personal consumption expend	0.6%	0.2%
	US	Nov Nat Ass Purchasing Managers	59%	59.7
	US	Oct construction spending	0.3%	1.6%
	Japan	Nov auto sales**	-	4.1%
	Japan	Nov forex reserves*	-	2.5%
	Japan	Oct BankofJapan corp s'vice price*	-	0.0%
	Japan	Oct BoJ corp service price**	-	-0.7%
Fri	US	Nov non-farm payrolls	225,000	194,000
Dec2	US	Nov manufacturing payrolls	25,000	40,000
	US	Nov hourly earnings	0.3%	0.7%
	US	Nov average workweek	-	34.9
	US	Nov unemployment rate	5.8%	5.8%
	US	Oct leading indicators	0.1%	0.0%
	US	Oct factory orders	0.4%	-0.2%
	US	Oct factory inventories	-	-0.2%
	UK	Dec official reserves	$16m	$41m
During the week...				
	Japan	Oct current a/c	$9.4bn	$11.6bn
	Germany	Oct industrial production*	0.5%	-0.2%
	Germany	Oct manufacturing output*	0.5%	-0.1%
	Italy	Nov official consumer prices indx**	3.7%	3.8%
	Italy	Oct balance of payments	-	-L1.1T
	Spain	Sept industrial production**	6%	11.6%

*month on month, **year on year, †seasonally adjusted. *Statistics, courtesy MMS International.*

MONDAY PRIZE CROSSWORD

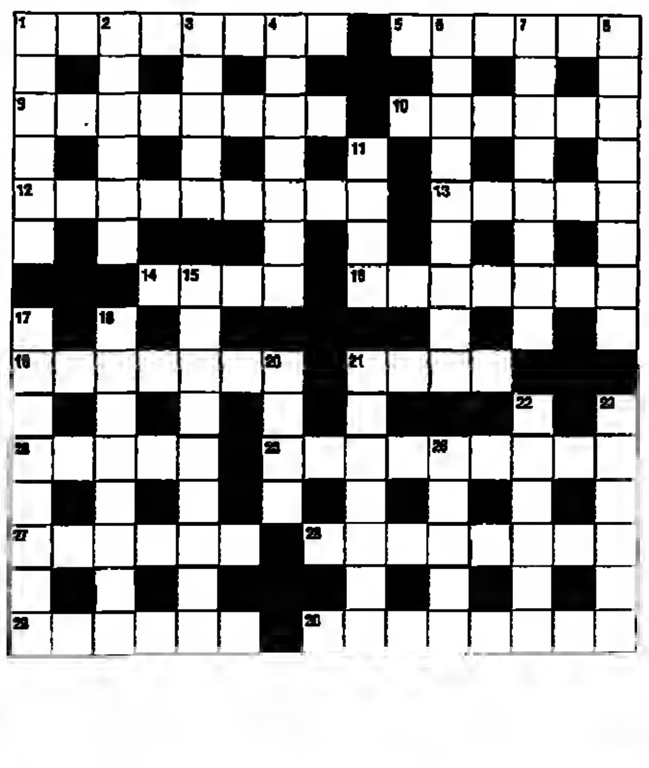
No.8,622 Set by VIXEN

ACROSS

1 Drink with people in competition (4,4)
6 A farm-worker exercises in the end (6)
9 Having to dress several can be wearying (8)
10 Taking break in South Africa or ancient Greek city (6)
12 No longer stress deferment (9)
13 A northerner's retirement causing dismay (5)
14 Frank wants nothing put down on paper (4)
16 Mixed-up characters in need of sorting out! (7)
19 Grimace after tea showing dissatisfaction (7)
21 Dissembles in the friendliest fashion (4)
24 The country is not fancied by a very large number (5)
25 Endorsement certain to encompass giant merger (9)
27 Tha high-flier's sopport melted before the inevitabla crash (6)
28 The boards without work start preparing for a strike (8)
29 "Studies at Oxford?", the old monarch scoffs (6)
30 The most aminant of tha French cutting donation (8)

DOWN

1 Individual posing as an easy target (6)
2 The artist's surrounded by pets. They're worth their weight in gold (6)
3 Got up in a bad temper – is enraged in fact (5)
4 Flora, a writer of verse (7)
6 Set out please, and walk (9)
7 Go into liquidation through father retaining money (8)
8 Followers will see the light (4,4)
11 She may be sent up, but remain just the sama (4)
15 The average sum is of the utmost importance (9)
17 Refusing disdainfully to make a song about foot trouble (8)
16 Shell of vehicla speedily constructed (8)
20 This could well be one's central feature (4)
21 Brighter, but more frivolous (7)
22 Benevolent fellow put in the shade (8)
23 Where thera's low rainfall many trees appear contorted (6)
26 Shivering while going over a prison (5)



A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday December 8, marked Monday Crossword 8,622 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday December 12.

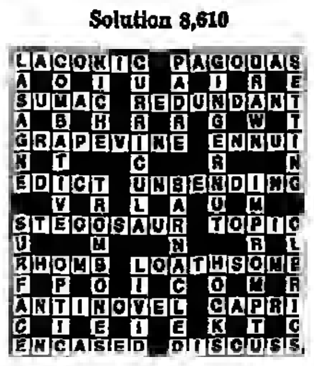
Name..

Address..

Winners 8,610

H.W. Boyle, Oxford
J. Donaldson, Crawford, Strathclyde
S. Dunning, Blanefield, Glasgow
Mrs A. Lydon, Oaksey, Wiltshire
Gill Slater, Hazel Grove, Stockport
F.W.J. Teale, Harborne, Birmingham

Solution 8,610



PAKISTAN

Monday November 28 1994

Ms Bhutto, above, has introduced radical measures to help solve the problems of crime and political instability in Karachi (right) and other areas

Big test for Benazir Bhutto

In her second term in office, Pakistan's prime minister has made a good start by promising a firm response to her country's deep-rooted problems. Now Ms Bhutto has to prove she can deliver, writes **Stefan Wagstyl**

Ms Benazir Bhutto, the Pakistani prime minister who is visiting the UK this week, leads a country which is now at a critical point in its history.

In the past five years, Pakistan has made a stormy transition from military dictatorship to Parliamentary democracy. Despite six changes of government, it has established a solid consensus in favour of liberalising the economy and opening up to foreign trade and investment. It has also gone some way towards improving relations with the US and other western powers, despite their continuing concern about Pakistan's nuclear programme.

However, these achievements still stand on fragile foundations. Pakistani politics is riddled with violence and corruption. The small ruling élite has shown little willingness to share the fruits of prosperity with the great mass of ordinary Pakistanis, some of whom are falling prey to the temptations of crime, political extremism and Islamic fundamentalism. And although Ms Bhutto has a good personal rapport with many westerners, the US administration and most European capitals remain somewhat wary of Islamabad.

Nevertheless, Pakistan is at least making progress and at a pace which has quickened noticeably in the year since Ms Bhutto took office for the second time in last autumn's general election.

In politics, despite persistent efforts by Mr Nawaz Sharif, the ex-prime minister and Ms Bhutto's bitter enemy, to make trouble , the government has achieved a measure of political stability. After the storms of 1993, which culminated in the overthrow of Mr Nawaz Sharif's government, 1994 has, by Pakistani standards, been fairly calm. Ms Bhutto's government retains a firm grip on the administration and on Parliament.

In the economic sphere, Ms Bhutto has successfully pulled Pakistan out of a foreign exchange crisis which loomed large in mid-1993 and has put the country's finances on an even keel, with the help of a squeeze on credit, imports and public spending. Foreign exchange reserves have soared from a paltry US\$300m to a record \$3bn.

The feud with Mr Nawaz Sharif has fortunately not prevented Ms Bhutto from continuing with her predecessor's economic liberalisation programme, including import tariff cuts, financial deregulation and the most radical privatisation programme in south Asia. International companies say the incentives for foreign investors are among the most attractive in the developing world.

"Pakistan has truly come to believe that foreign investment is a must," says Mr Nisar Memon, president of the Overseas Investors' Chamber of Commerce and Industry in Karachi.

Foreign companiee have responded by increasing their actual investments and pledging a big increase in the future, notably in power, where the government has collected proposals for new generating stations worth US\$12bn. These would, if realised, double the country's capacity.

In the financial markets, the overseas sale of shares in Pakistan Telecommunications Company, the state-controlled utility, raised \$900m, a greater figure than all previous portfolio investment in Pakistan.

Yet, despite these gains much more needs to be done if Pakistan is to see broad-based political, economic and social modernisation. The root cause of the country's chronic political instability is the failure of the dominant land-owning élite to share power with the rest of Pakistan's fast-growing population of 128m.

More than half the members of the National Assembly are feudal landlords, voted in by their mostly illiterate sharecroppers. The country is run by a few hundred families who inter-marry and place their sons in the three pools of power – politics, the bureaucracy and the army.

Many of these people, though not all, have come to regard government office as a personal fiefdom, in which nepotism, tax evasion and corruption undermine good administration. As Farooq Leghari, the president, said this month in a Parliamentary policy speech: "Corruption has permeated all walks of life."

The élite has also failed to distribute resources adequately to the great mass of its fellow countrymen. According to United Nations data, even though per capita income in Pakistan is considerably higher than in neighbouring India (\$1,970 per head in 1991 on a purchasing power parity basis against \$1,150), Pakistan is well behind India in education and health standards. Only 37 per cent of Pakistanis can read, compared with 50 per cent of Indians, and life expectancy at birth is 58.3 years, compared with 59.7.

The explanation lies partly in the defence burden imposed on Pakistan by its feud with India over the troubled region of Kashmir. Fully one third of the government budget is spent on the military, starving social development of funds. The scale of military spending also virtually guarantees the generals a powerful influence over the whole of public life.

Even though General Waheed, the army chief of staff, is avowedly apolitical, his successors may not be. And while the conflict also puts a strain on India's public finance and on politics in India, Pakistan is a much smaller country and less able to contain its baleful effects. Few voices in Pakistan, however, challenge the consensus that military spending retains a high priority. Washington, for example, failed in an attempt to secure a cap on Pakistan's nuclear programme in return for a shipment of F-16 jets; Islamabad refused to consider such a move unless India did likewise.

The immense distractions of Kashmir have been compounded by the effects of the continuing fighting in Afghanistan, where Pakistan remains involved in the rivalry between warring Mujahideen groups. The legacy of the anti-Soviet war has left huge quantities of arms in Pakistan, particularly in the lightly-administered mountainous tribal areas in the north, where, under treaties dating back to independence, the government's writ is limited.

Power rests in the hands of tribal elders, some of whom have used it to amass fortunes smuggling guns and narcotics. According to the UN, Pakistan, which knew little even of opium 20 years ago, has become the world's second largest source of heroin after Burma. It has also spawned 3m drug addicts.

The country's uneven political and social development and its ready access to guns has created fertile ground for crime and for political and religious extremism. The most pressing problem is in Karachi, the commercial capital, where more than two years of army deployment has failed to end criminal and political violence.

Populated largely hy refugees from northern India and their descendants, Karachi, furnishes about 60 per cent of government revenue but its people mostly feel excluded from a political system dominated by indigenous Sindhis and Punjabis – *see report, page three.*

In the northern tribal areas, some chiefs and militant mullahs have proved themselves powerful enough to challenge the central government, notably in Malakand district, where armed supporters of a radical Islamic preacher have staged two uprisings this year.

To their credit, Ms Bhutto and her ministers recognise the scale of the problem. She talks of the need for "social revolution" in Pakistan.

Mr Leghari's speech, cited above, is a model of objective analysis of matters which many governments would prefer to ignore. As well as dealing with corruption, he makes tough remarks on drugs, law and order, and the "woefully low" education standards. Moreover, the government is taking action. Anti-corruption and anti-narcotics laws have been tightened. Karachi has been promised better policing and long-term investment in public services.

Military spending is being kept under close control while eocial spending is being increased through a Social Action Programme, backed by international aid donors, which envisages spending \$7bn over 1993-98 mainly on education and health.

With luck and good weather, the economy should recover this year after two sluggish years and give Ms Bhutto some room to manoeuvre in financing these ambitious plans. She says: We don't believe in talking. We believe in doing."

But she has yet to show that she has the determination to force the rural élite to become more accommodating to the needs of ordinary Pakistanis. One example of the landowners' reluctance to countenance change has been the delay over the introduction of an agricultural income tax, imposed on the feudal élite. This was passed last year by the National Assembly and has since been ratified by provincial assemblies in Sindh, North-West Frontier Province and Baluchistan but Punjeb, home of the richest farmers, has refused to comply. If the landowners do not pay tax, who will pay for the education of their tenants?

Ms Bhutto knows as well as anyone that a powerful and disciplined army can suppress social conflict but cannot remove its causes. She has made a good start in her second term in office by identifying Pakistan's deep-rooted problems and promising a response. She has now to prove she can deliver.

ON OTHER PAGES

The economy: new incentives are offered to foreign investors, reports **Stefan Wagstyl**

Foundations laid for stability

At a faster pace than seemed possible a year ago, the government of Ms Benazir Bhutto has pulled Pakistan out of a foreign exchange crisis and laid the foundations for economic stability.

Ms Bhutto has also given a new impetus to efforts to attract foreign investment by offering extra incentives and further liberalising an economy that was already among the most open in the developing world.

Overseas companies have responded by pouring funds into the stock market and pledging to increase direct investment, notably in power generation, to which the government attaches the highest priority.

Yet, as Pakistani and foreign businessmen are united in telling the government, all this progress in the economy could still be wasted unless Pakistan also tackles its non-economic problems – above all the crime and violence in Karachi. As Mr Nisar Memon, general manager of the Pakistani operations of IBM, the US computer maker, and president of the Overseas Investors' Chamber of Commerce and Industry, says: "The number one priority is the law and order situation."

The economic turnaround dates back to the caretaker government of Mr Moeen Qureshi, the former World Bank economist, who led the country for three months last year between the fall of Mr Nawaz Sharif and Ms Bhutto's election victory. But the new government deserves credit for persevering with his tough curbs on public spending, bank lending and foreign exchange outflows.

Since the summer of 1993, the budget deficit has been cut from over 8 per cent of GDP in the year to June 1993 to 5.8 per cent in 1993-94. The target for 1994-95 is just 4 per cent.

The expansion of domestic credit has dropped from 24 per cent in 1992-93 to 9.3 per cent last year. Imports, which jumped 12 per cent in 1992-93, fell almost 15 per ceot last year. Foreign exchange reserves have risen from a low of \$300m to a record US\$3bn.

Inflation has fallen but is still to be brought under control. Prices have been pushed up by increases in power charges and other administered prices and by the influx of foreign exchange which has expanded the domestic money supply.

However, the government's short-term economic management has been so good that it has brought plaudits from international observers including the International Monetary Fund.

The squeeze on credit, imports and public spending has contributed to a slow down in economic growth. GDP rose only 4 per cent last year after 2.3 per cent the year before - down from 7.7 per cent in 1991-92. However, the government, which is now easing credit restraints, is forecasting a sharp increase to 6.9 per cent in 1994-95. Much depends on agriculture, especially the cotton crop, which determines the commercial health not just of cotton farming but of textiles production, Pakistan's biggest industry and largest contributor to exports. As Mr V.A. Jafarey, the prime minister's adviser on financer, says: "As far as growth is concerned, the key question is the cotton crop."

The drought and disease which have hit cotton in the past two years have been the principal reason for slow economic growth. This year, the government is planning for a recovery in cotton production from 7.6m bales to 9.5m.

Some cotton farmers have said the lingering effects of drought and disease will hold back output, but no-one can be certain until the harvest reaches its peak in January. The finance ministry estimates that each 1.5m bales of cotton output is the equivalent of 1 per cent of GDP.

Given the uncertainties, some economists doubt whether growth will be as fast as the government plans. They believe 5-6 per cent GDP growth is a more reasonable target. There is also concern about the state of business confidence. Power shortages and the disturbances in Karachi have hit industrial output, which has grown at an average of just 5.5 per cent in the past two years.

Karachi bankers say that local businessmen are noticeably less enthusiastic about prospects than foreign companies. One reason is that domestic companies are more involved than overseas groups and their Pakistani subsidiaries in the depressed textiles industry. Exports, mainly cotton and textiles, actually fell last year, albeit by only 0.1 per cent, for the first time – despite a 10 per cent devaluation in the rupee in mid-1993.

By contrast, foreign investors are responding favourably to the Bhutto government's initiatives. Foreign investment inflows rose 20 per ceot to \$693m in 1993-94, including \$339m in portfolio investment.

This year's figure could come close to \$2bn, given that the overseas sales of shares in Pakistan Telecommunications Company, the state-owned carrier, raised \$900m this autumn and that construction is starting on the \$1.8bn Hob River power station.

The government is also hoping to attract foreign investment in future privatisations. Though perhaps not on the scale of PTC, stakes in state-owned power and gas producers and distributors could also raise large sums. Even greater is the amount ministers hope to attract into the construction of new power stations. A new energy policy, launched in March 1994, offering attractive terms to private sector investors, including a guaranteed price for power purchases, has encouraged US companies to sign letters of intent for building power stations worth \$4bn. Mr Gordon Wu, the Hong Kong entrepreneur, has unveiled an even bigger programme, offering to build generating capacity worth \$8bn.

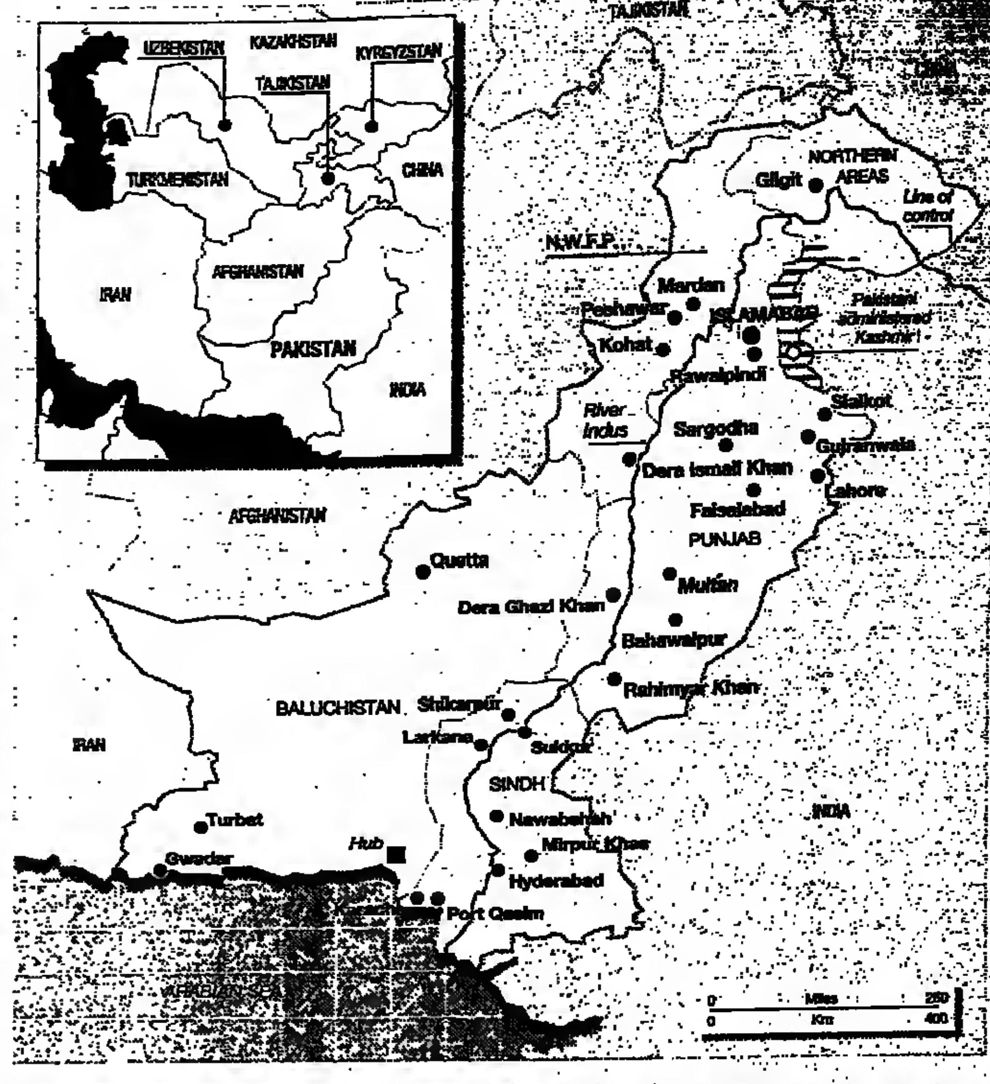
There is eome donbt abont how fast these investments, which would almost double Pakistan's electricity output, might materialise. But for Ms Bhutto they already represent a powerful boost to confidence in her economy.

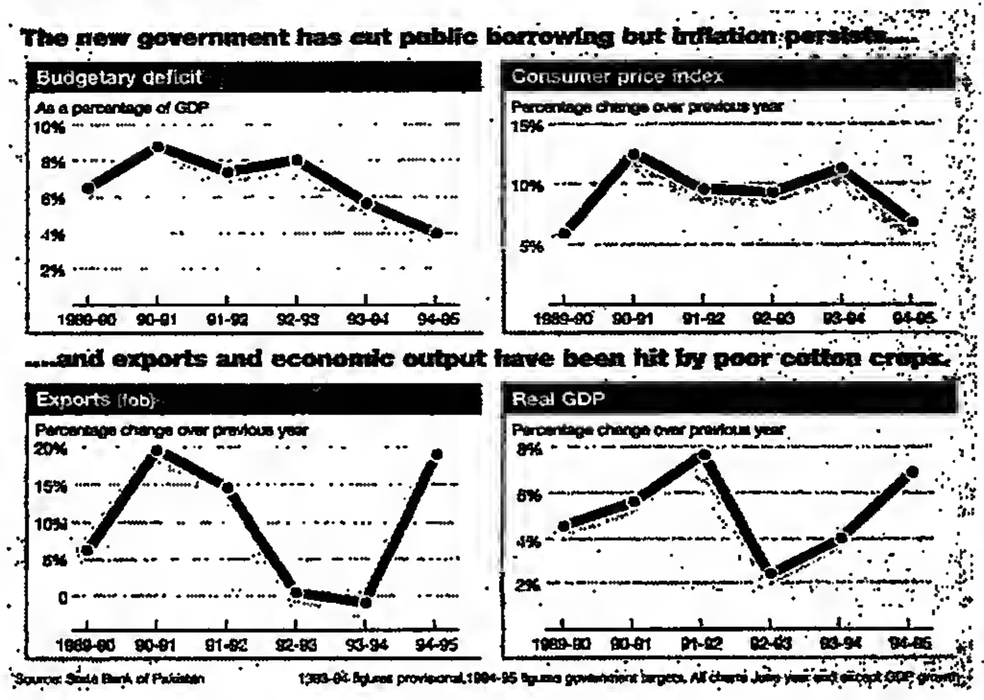
These investors are attracted partly by Pakistan's chronic need for power and partly by the consistency with which successive governments have pursued market-oriented policies favourable to foreign trade and investment. Despite the political divide separating them, Ms Bhutto and Mr Nawaz Sharif have few differences on economic policy.

Ms Bhutto's government has pursued her predecessor's initiatives in virtually all important areas including liberalising trade through tariff cuts, deregulating foreign exchange rules and financial markets, and privatisation.

The sale of shares in a leading state-owned bank, UBL, is top of the privatisation agenda, to be followed, as mentioned above, by sales of stakes in utilities currently operated by the Water and Power Development Authority. Although there were plans to privatise it *en bloc*, WAPDA is now seen as too unwieldy for such a sale.

All this is music to businessmens' ears. But the government's tune is in danger of being drowned out by the country's political turmoil. Investors can learn to live with chaotic Parliamentary politics, as they have in Italy, for example. They can also cope with corruption, which is widespread in Pakistan, but which is common in almost every developing country and most developed nations as well. But the risk of being robbed or even murdered on the streets of Karachi has made more than one potential investor think twice about Pakistan.





Source: State Bank of Pakistan — 1993-94 figures provisional, 1994-95 figures government targets. All charts June year end except GDP growth

Private investment is seen as the key to much-needed improvements in electricity supply, writes **Farhan Bokhari**

Power policy starts to emerge

Pakistanis will find it hard to forget this year's long hot summer. Up to six hours of power cuts in many urban areas caused huge prodnction losses for businesses and industries. In Karachi, Pakistan's business capital, some wealthy residential areas were left without electricity for several days.

The cuts were a repeat of widespread black-outs in the early 1990s, at a time when the gap between supply and demand was widening rapidly.

Yet while, for many Pakistanis, this year's experience may have been dispiriting, the country's new energy policy aims to improve the electricity supply by attracting private investment.

A series of complicated bureaucratic layers, which served only to delay new projects, has been replaced by a "one window" operation in Islamabad, capable of processing all inquiries and problems. Businessmen and western economists bave generally welcomed, too, a generous rate of return being offered to investors.

"There bas never been a power policy in this country," says Mr Shahid Hasan Khan, the prime minister's adviser on economic affairs, and head of a special committee which recommended the new incentives – "the thrust is now on the private sector," he says.

Investors will, in other words, be expected to take their cue from the fresh ground that the government believes it has broken with its new policy.

The government is claiming the credit for commitments worth more than \$12bn, which have been made since its announcement early this year. These include a \$8bn coal-fired power generation project being undertaken by Mr Gordon Wu, the Hong Kong-based business leader, and almost \$3.5bn of investment promised by American businesses.

"We've actually reached a point where a lot of people are very conscious of Pakistan, and see it as a place in which they can look for investment opportunities," says Mr Daniel Michael Woodroffe, chief executive of the Karachi-based Hub Power project – a joint venture, with Xenel group of Saudi Arabia and National Power of the UK among the largest sponsors.

The 1,292MW hub-power project, the largest private sector power project in the developing world, was first conceived eight years ago, and is likely to begin producing in 1996.

Despite the optimism from many sides over the schemes that have been put in the pipeline this year, Pakistan still faces the challenge of ensuring that most of these projects are successfully completed.

Many prospective investors, able to provide between 20 and 30 per cent of the full costs, are aware of the difficulties involved in arranging full financing by snch meane as loans.

"For every four to five dollars of demand worldwide, there's only one dollar that can be raised. You've got to be very competitive," says one American businessman.

"Some [proposals] will fall by the wayside, because they are not well thought through or because there are problems funding them, but a significant proportion will come through," says Mr Woodroffe, who is optimistic abont the future.

However, other businessmen and some officials are less certain. Part of the concern is tied to the extent to which Pakistan can improve its ailing transmission infrastructure, to improve the quality of power snpply, so that all power generated reaches consumers.

The government now plans to invite offers for new contracts worth up to \$5bn for investment in transmission lines and related facilities.

Power tariffs, however, will need to be increased – by some estimates, between 40 to 50 per cent – in order to pay for the overhaul of the system.

"It is difficult for a political government to raise these in one go," says one senior official privately. He explains that a detailed plan to introduce higher rates, to be phased in over a period of time, will be the most important element in the success of the new initiative.

Some officials are also concerned that up to 80 per cent of the added load is expected to come from central and northern parts of the province of Punjab, at least 1,000km away from the port city of Karachi. They argue that new projects set up close to the coast, to avoid breakdowns in the supply of fuels, could face power losses by the time that the transmitted energy reaches its destination.

Despite such concerns, most officials and businessmen are convinced that the energy initiative stands at the top of the government's economic agenda, and that the recent incentives bave improved prospects for new investments – "the population of investors in private power has decided that Pakistan is a good place to look [for opportunities]," adds Mr Woodroffe, describing the mood of prospective investors after the new energy policy.

Political power has been retained in the hands of an élite group of families, says **Stefan Wagstyl**

Alienation tends to breed violence

Former Pakistani prime minister Nawaz Sharif addresses a rally at Neela Butt in Pakistan-held Kashmir. He warned India that Pakistan has a nuclear bomb to meet any eventuality. Picture: Z.Baig/AP

Ms Benazir Bhutto, the prime minister, and Mr Nawaz Sharif, the opposition leader, show no sign of relenting in the bitter feud which has poisoned Pakistani politics for the past five years.

To the dismay of Pakistanis concerned about the quality of the country's democracy and about its international image, the consequences of the two leaders' bad-tempered rivalry were recently put on display in the National Assembly building.

Addressing a joint meeting of the assembly and the senate, Mr Farooq Leghari, the president, was barely able to deliver an important policy speech, as government and opposition members pushed each other about and exchanged insults at the foot of his podium.

"Leghari thief! Leghari go," opposition members shouted throughout the speech. Banners were draped around the hall condemning the government for alleged corruption. Later, an opposition member was taken to hospital after being beaten by student supporters of Ms Bhutto's Pakistan People's Party.

Afterwards, Ms Bhutto blamed the opposition for starting the row. Mr Nawaz Sharif's Muslim League party retorted that the government had provoked tha attack by arresting Mr Mohammed Sharif, the opposition leader's 75-year-old father only a day earlier on charges of fraud, forgery and tax evasion.

The roots of the quarrel go back to the conflict between Ms Bhutto's father, Mr Zulfikar Ali Bhutto, the former prime minister, and General Zia-ul-Haq, the late dictator, who in 1977 imposed military rule and later ordered Mr Bhutto's execution.

After General Zia's death in 1988, democracy was restored and Ms Bhutto came to power. But it was only 20 months before the army and bureaucracy chased her out of office and installed Mr Nawaz Sharif, a protégé of General Zia.

However, last year Mr Nawaz Sharif overplayed his hand by provoking rows with tha army, over the appointment of a new chief of staff, and with the president, Mr Ghulam Ishaq Khan, over a plan to curb the presidency's powers.

After months of turmoil, Ms Bhutto was returned to office in a general election which was widely seen as the fairest ever held in Pakistan.

The most immediate need is to deal with the threats to law and order, especially in Karachi. Above: the Pakistan army's presence on the streets of Karachi earlier this year encouraged motorists to come on the roads which had remained deserted for four days. Picture: Ghadir Lodhi, Reuter

But fair elections have not brought political peace. Ms Bhutto is pursuing a wide-ranging corruption inquiry into the business interests of the Sharif family, especially its rapid growth during Mr Nawaz Sharif's periods in office, first as chief minister in Punjab, the largest of Pakistan's four provinces, in the 1980s and later as prime minister.

Mr Nawaz Sharif has responded with allegations of corruption against Mr Asif Zardari, Ms Bhutto's husband and a leading businessman. Among the banners paraded during the stormy demonstration in the National Assembly this month was one declaring: "Pakistan for Sale. Contact Zardari and Associates."

Mr Nawaz Sharif wants Ms Bhutto's resignation and an early general election – "she has lost all legitimacy," he says.

Ms Bhutto insists that despite the confrontation, the corruption charges and even the scuffles in Parliament, democracy is thriving in Pakistan. Italy and Japan have also seen parliamentary storms, yet no-one questions their democratic credentials, she says.

Certainly, the battles are being fought within constitutional norms and, the army has stayed out of the fray unlike in some previous episodes in Pakistani history. Moreover, the two main parties have few disagreements on policy – whether it is over the economy, defence or international relations.

The feud does Pakistan considerable harm, however: first, the leaders set a poor example for other Pakistanis, some of whom need little encouragement to try to take the law into their own hands. Next, it harms the country's international image. Finally, it distracts attention from the country's deeper political difficulties.

The most immediate need is to deal with the threats to law and order, especially in Karachi, (as described in a separate article on this page), and in the tribal areas in the north, where many have died in an insurgency in Malakand district this year.

The supply of guns and ammunition left over from the anti-Soviet war in Afghanistan and the spread of the drug trade have put considerable power into the hands of armed groups. Young men with automatic weapons are almost every day turning conflicts over religion, politics and crime into vicious gun-fights.

Deploying the police, paramilitary rangers and the army is only part of the answer. Without economic, social and political initiatives, the roots of violence will sink deeper into Pakistani soil. Ms Bhutto's government is pledged to improve social and economic conditions through its Social Action Programme, which involves increasing social spending.

But the crux of the matter is that too few Pakistanis are involved in the running of their country and so feel alienated from authority.

The nation is ruled by an elite of Sindhi and Punjabi feudal landlords, whose sons (apart from Ms Bhutto, few women are active in public life) fill the national and provincial assemblies and the upper echelons of the bureaucracy and army. Over half National Assembly members are rural landowners. Mr Altaf Gauhar, a veteran political and economic commentator, estimates that just 500 families rule Pakistan.

The only politician who managed to reach out beyond the land-based élite was Ms Bhutto's father, Mr Zulfikar Bhutto, a populist who won support from the urban crowds of Karachi and Lahore. Even though his daughter has claimed Mr Bhutto's mantle, she has failed to reach the hearts of ordinary Pakistanis in the same way.

With domination of a small élite, has come the transformation of public life into the personal fiefdom of a few wealthy families. Corruption and patronage have become endemic and the law has been turned into a tool of political manipulation.

To her credit, Ms Bhutto is aware of the challenges involved in making Pakistan a more just society. Her government has strengthened anti-corruption laws, tax collection measures and controls to prevent the powerful extracting excessive loans from banks.

But it is not yet clear that Ms Bhutto has the will to persuade her class to share at least some of its privileges. As Mr Gauhar says: "The only way this problem will be solved is if the poor gang together. Then the élite will have to change."

Karachi's rapid expansion has produced ethnic tensions

Sense of unease stalks the streets

When an army jeep speeds through Liaquatabad market in Karachi, a machine gun jutting out across the bonnet, the crowds barely give it a second glance. After more than two years on the city's streets, army patrols have become a fact of lifa in Pakistan's commercial capital.

But they have not brought peace. Since the beginning of the year about 500 people have died, mostly in gun-battles between rival armed gangs and the security forces. About 200 have died since early September. In one incident this month, a leading local politician was killed with his wife, sister-in-law and infant son, when gunmen sprayed their car with bullets. The next day, eight people were killed and 40 injured in revenge attacks and counter-attacks.

Karachi is not a city in flames. In much of the sprawling metropolis of 12m, there are no signs of violence. During the day, the soldiers try to be discreet. Their patrols come out in force only at night, when the gunmen are also most active. Yet a deep sense of unease stalks Karachi.

"There is a feeling of uncertainty. A lot of people say that in the 1970s this was a wonderful place to live. They don't say that any more," says Mr Suhail Abbas, editor of the Financial Post, a business daily. Mr S.M. Muneer, the president of the Federation of Pakistan Chambers of Commerce and Industry, is more blunt. He told a press conference earlier this month that there was "a complete breakdown of law and order."

The government recognises the urgency of the matter, particularly at a time when it is encouraging foreign businessmen to send executives to Pakistan – "peace and tranquillity in the country is our top priority. We can't neglect law and order if we want economic development," says Mr Iqbal Haider, the justice minister in Islamabad.

Tha origins of violence in Karachi lie in the city's rapid expansion since independence and the frustrations generated by a constant influx of refugees and migrants. The biggest wave was composed of the Mohajirs – people who fled India in 1947 to escape religious riots and start a new life in a Moslem country. These Urdu-speaking people established themselves as a majority in Karachi to the dismay of local Sindhi-speaking farmers.

In the first years after independence, the work of building a new country kept the latent ethnic strains in check. But arguments over language and quotas for government jobs and college places gradually polarised the two communities. The Sindhis resented the well-educated Mohajirs' success in business; the Mohajirs hated their exclusion from power. They produced figures showing that despite accounting for about half the population of Sindh province, Urdu-speakers accounted for only 95,000 of 456,000 provincial government posts.

Other conflicts also surfaced – between Sunni and Shia Moslems, for example, and between rival criminal gangs. But it was the large and well-organised Mohajir community that had the biggest impact. In the 1980s, Mr Altaf Hussain, a charismatic speaker, now 41, launched the Mohajir Qaumi Movement, which took control of the Karachi Municipal Corporation and won the lion's share of the city's national and provincial assembly seats.

But successive alliances with Ms Benazir Bhutto's Pakistan People's Party and with Mr Nawaz Sharif's Moslem League failed to bring the MQM tangible benefits. Frustration pushed militant factions towards political violence and to crime. With the anti-Soviet war in Afghanistan over, guns were easy.

Drug smuggling generated easy money. In June 1992, Mr Nawaz Sharif ordered the army to send 60,000 troops to restore order in Sindh, including 40,000 in Karachi. More than 400 MQM activists were killed in the first few months of "operation clean-up" and hundreds of others arrested. The army promoted divisions in the MQM, and the growth of a strong faction called MQM (Haquiqui), which it encouraged to fight against the mainstream groups.

MQM militants fought back. Mr Altaf Hussain, who was in London when the army started its campaign, refused to return for fear of capture – and continued to lead his movement from exile. This summer he was sentenced *in absentia* to 27 years' jail for alleged offences including murder and arson.

The MQM has responded to military pressure with increasingly radical demands, including this year asking for a new province to be carved out of southern Sindh, incorporating Karachi. Ms Bhutto and her ministers rule out such ideas. Yet, government officials and MQM representatives are frequently in contact. Mr Shoaib Bokhari, the acting MQM opposition leader in the Sindh assembly, says: "We don't want separation from Pakistan. We want equal treatment."

The violence obscures tha fact that many of Karachi's problems are those of any fast-growing city. Water, sewerage, power and transport services are all inadequate. While the city generates about 60 per cent of central government revenues, littla is ploughed back into Karachi.

Mr Abbas, the newspaper editor, says, Karachi-ites are self-made dynamic people. He believes they will respond to the challenge posed by violence. But, like others, he is not sure how long this may take. For businessmen, it is a matter of deciding whether potential rewards justify the possible dangers. Many might agree with Mr Nisar Memon, tha country manager of IBM, the US computer manufacturer, who says: "It's a risk, but it's a containable risk."

Stefan Wagstyl

Privatisation projects: telephone, power and shipping companies are being lined up for sale, reports **Farhan Bokhari**

The programme gathers pace

The beginning of the privatisation of Pakistan's telephone company, the PTC (Pakistan Telecommunications Corporation), this year, could well be the most important development in the country's four-year-old privatisation programme.

So far, only small companies, making on average less than 2 per cent annual profits as a proportion of turnover, have been offered for sale. Following the sale of 65 such companies during the past four years, the government plans to transfer a further 30 companies to the private sector by next spring.

The importance of the public sector in the economy is obvious. Large and small public sector companies account for about half of the manufacturing sector, virtually all power generation and transmission, and a substantial portion of banking.

But the sale of the PTC marks the start of the sale of what many would regard as the 'family silver.'

Other potentially lucrative enterprises be which may offered next year include portions of two large power companies, two gas companies, at least one public sector bank, a government-owned shipping company and even portions of the port.

"We are very much on a 'war footing' in the privatisation programme," says Mr Naveed Qamar, chairman of the national privatisation commission.

The offer of public sector utilities could be the most important step to liven up the effort, he says. Among new ideas to increase public interest in the offers, is scheme being considered by the government for registering a privatisation fund on Pakistani stock markets. This would comprise shares of state-owned companies, in which investors would be invited to buy shares through mutual funds.

Despite Mr Qamar's confidence, and the novel concepts which are just being attempted, there are few clear indications as to how far the programme can be expected to succeed.

The government is convinced, however, that Pakistan's public sector utilities can attract large investments from domestic and foreign investors.

The PTC (Pakistan Telecommunications Corporation) – the government-owned telephone company which maintains an absolute monopoly, has alone been estimated to be worth up to US$20bn. The thermal power generation units of the Water And Power Development Authority (Wapda) – the largest power company of those due to be sold, could be worth another US$5bn, according to some estimates.

However, those claims by no means give the final figure. In recent weeks, share prices in PTC have fallen, amid fresh selling pressures. The selling followed fears

The privatisation of many companies – large and small – in the public sector presents a big challenge. Pictured here are steel workers dismantling old ships in Gadani

which had arisen over allegations that investors were not provided with accurate information when up to 6m shares were offered this summer, in the company's first public offer. Senior officials say that the ommission was merely an "oversight" due more to inexperience than deliberate misinformation. However, that experience has alerted the government to the possibility of setbacks, unless future offers are planned properly, one official involved with the privatisation effort claims privately.

Some investors are also concerned over the extent to which full financial details of the companies being offered would be made available. Mr Qamar is committed to providing full details on public sector organisations including the large banks, currently reeling under the pressure of extensive bad loans.

The PTC and WAPDA are also faced with large scale liabilities. Clients owe more than Rs18bn (US$580m) in unpaid bills to the two companies. The government has announced that it will introduce new laws, carrying stiff penalties for defaulters, but such measures still need to be enforced on a large scale to demonstrate that an extensive campaign to recover the money has prepared the ground to prevent further abuse of the companies.

However, some businessmen are convinced that the most crucial need is to accelerate the pace of the programme.

"This process must be expedited because the longer these companies remain in the public sector, the longer will be the demand on the public exchequer," says Mr Nisar Memon, Head of IBM's Pakistan operations and president of the influential Overseas Chamber of Commerce and Industry (OCCI) which represents foreign businesses in Pakistan.

Mr Memon is also concerned that the country's bureaucracy is still not entirely in support, following years of official controls over lucrative corporations. But he is convinced that such resistance can be easily removed, if the government continues to press ahead aggressively.

In spite of initial fears of resistance from unions, there are so far few signs of any labour unrest which could upset the government's plans. Workers have been assured of job protection for up to one year following privatisation.

The government has also given a commitment of a 'golden handshake' or a large sum of money depending on an employee's length of service, if redundancies are necessary.

However, Mr Memon wants to see new safeguards to prevent any social unrest such as might resulting from sharp price rises after privatisation of utilities. Mr Qamar says the government will set up price monitoring bodies before services are privatised, to protect consumer interests.

However, many officials and businessmen say privately that price increases are inevitable, especially after years of subsidies to the public sector. The one important question is whether these price increases can be spread over a period of time to prevent discontent among consumers.

STOCK MARKET EXPANSION

Spurred on by foreign investors

In a year when the Karachi Stock Exchange (KSE) has been forced to suspend trading in at least two new share issues, amid concerns that investors' interests were at risk, no one can take for granted the safety of investment in Pakistani stocks.

However, the potential damage has not been enough to inhibit the market's fast growth or a sharp rise in seat prices on the KSE.

In a closed shop of just under 200 members, prospective brokers need to spend np to Rs27.5m ($800,000) to buy a licence in the open market – three times more than was charged four years ago, when the country's economic reforms allowed the entry of foreign investors.

Those reforms have attracted up to $800m from foreign investors. Although still a small portion of the overall market capitalisation of $13bn, the entry of foreign funds has prompted increased investment by domestic investors. The market's average daily turnover has trebled to 10m shares since 1991, while capitalisation has almost doubled in the past three years. As a result of increased business activity, at least six new brokerage houses have been formed.

The changes have also given birth to a new breed of "yuppies" who are fast emerging in the market. According to Mr Nasir Bukhari, chief executive of Khadim Ali Shah Bukhari, a leading brokerage firm, up to half of the new graduates from the country's two top management schools now want to join a brokerage house. Before the reforms, virtually none wanted to. But behind the impressive change, the KSE is still faced by concerns over lax laws and a potentially "overheated" environment.

"We asserted ourselves in such a way that we pre-empted any chance of the small investor being misled," is how Mr Yasin Lakhani, president of the KSE, defends his record. Critics argue that this year's suspension of two new issues hardly gives reason for comfort. The action was prompted when one announced an excessively generous rights issue; while another did not deliver share certificates to the public, even after receiving subscription money.

The market "is not becoming unsafe for investors – there are scandals and dubious issues, which come in every market of the world," comments Mr Farrukh Khan, chief executive of BMA Capital Management, a leading brokerage house, who also defends the record. However, he concedes that there is room for changes to protect investors' interests.

He wants to see tighter regulations, to require underwriters to take full legal responsibility for the prospectus issued before shares are brought to the market. Mr Lakhani says the government is planning to increase the powers of the KSE management, which can only suspend trading or delist a company. Among other concerns, some foreign fund managers and their representatives also complain of inadequate mechanisms to clamp down on insider trading.

"The market is still not geared to deal aggressively with such issues," says one. "This is not the New York stock exchange, but still, if it wants to be taken seriously, it will have to prove that its taking action to prevent fraud."

Even if regulations are tightened, that alone will not resolve issues which could prevent further growth. Investing in the market is yet to become a popular concept for small Pakistani investors, many of whom still rely npon bank deposits as their main investments.

According to Mr Khan, the KSE growth could take off if open-ended mutual funds, pension funds and insurance companies from the domestic market were allowed to invest freely. The government is reconsidering the rules on these matters, but it is not clear how soon changes, if any, will be announced.

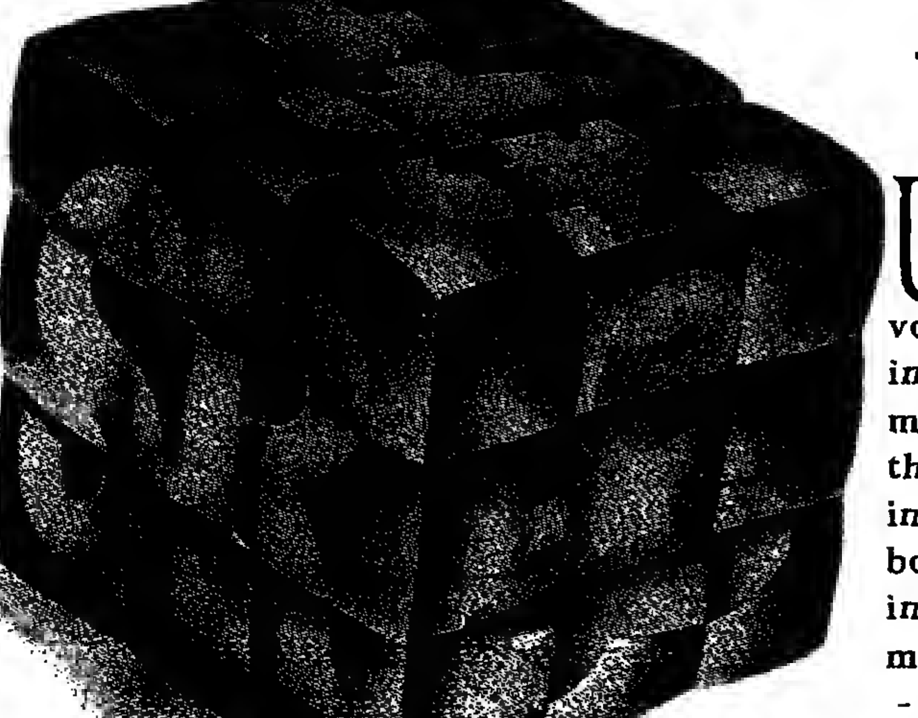
To keep up the investment momentum, Mr Lakhani is also urging the government to announce a further five-year extension to a capital-gains exemption before it expires next summer, to avoid uncertainty and large-scale speculative trading.

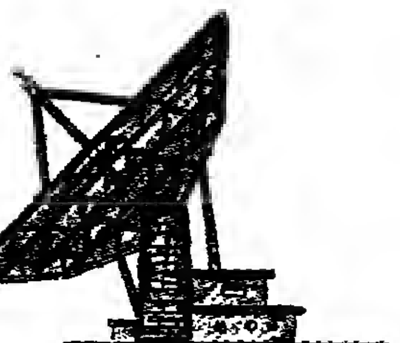
Many brokers also see developments in the market as an important element in the success of Pakistan's privatisation programme, especially the plans to sell government-owned utilities. A beginning has been made this year with the first international and domestic share offers in the giant Pakistan Telecommunications Corporation (PTC), the biggest company to be listed on the KSE.

The government is considering plans to offer some of the power-generation plants run by Water and Power Development Authority – Pakistan's largest power company – during the next year, and at least one of the two largest public-sector banks. It proposes that part of this will be through the KSE, although the exact size of the offer has not yet been announced.

Farhan Bokhari

The Karachi Stock exchange: prospective brokers need to spend up to Rs27.5m ($800,000) to buy a licence in the open market





Farhan Bokhari on banking and bad loans

Hopes pinned on new rules

Mr Badruddin Khan, president of Schon Bank, in Karachi – Pakistan's newest private bank – laments from his office in the heart of the business district at Chundrigar Road, that very few poor people come to his bank to do business.

He wants to open two branches in the city for small merchants, fruit vendors, grocery sellers and traders in cheap consumer items, in order to find clients who would otherwise stay away from the fast-moving business quarters.

Mr Khan has joined the ranks of bankers who are becoming cautious over a history of bad bank debts, and who feel that small borrowers may be more reliable than large and influential ones.

In a country where public sector banks are reeling under the pressure of almost Rs76bn ($2.4bn) in bad loans, almost no one is convinced that all tha money can ever be recovered.

Many of these loans were given out under political pressures during the past two decades, following nationalisation of the banks in the early 1970s. That legacy has cast a shadow over the future of the country's two largest public-sector banks – Habib Bank and United Bank – which successive Pakistani governments have planned to privatise for more than four years.

> **"The performance of public sector banks could improve if the management is handed over to the private sector"**

The two banks are together faced with a "classified debt", or loans which are difficult to recover, worth almost Rs34bn. That is almost one quarter of their combined portfolios at Rs140bn.

The government claims that stronger regulatory powers, given to the central bank last year to monitor new loans from banks, will at least help to ensure that the extent of bad loans does not increase. If that policy works, it may in time reduce the portion of such loans in overall lendings and help give stability to the financial system.

"The bad debts may not come down sharply but, with growth in lending, they will decline in their overall proportion," says Mr V.A. Jafarey, the prime minister's adviser on finance.

Whatever the future trend, Mr Khan is encouraged that the past legacy of the bad loans comes with a silver lining. He hopes that private banks will eventually attract more clients, especially those looking for efficient services and better profits. Drawing a lesson from that bitter past, Mr Khan wants his bank to diversify beyond traditional commercial banking, to become involved in a wide variety of activities which would also minimise the risks attached to lendings – "in a couple of years, new demands for merchant banking, financial and brokerage houses will be made on the market," he says, forecasting his bank's future in a changing corporate environment.

A few kilometres up the road, at the offices of Muslim Commercial Bank – Pakistan's first public sector bank to be privatised, three years ago – Mr Hussain Lawai, the president, is convinced that private banking is the way of the future. "The performance of public sector banks could improve if the management is handed over to the private sector," he says. The MCB's record supports his claim. Profits have doubled, and deposits have trebled in the three years since privatisation.

In addition to the nine new local commercial banks which have begun business since licences for private banks were issued in 1991, Mr Lawai sees a bright future for foreign banks. Deregulation on foreign exchange has encouraged many Pakistanis to deposit their savings in foreign currency, to seek added protection against devaluation of the rupee and possibly as a way to facilitate foreign travel.

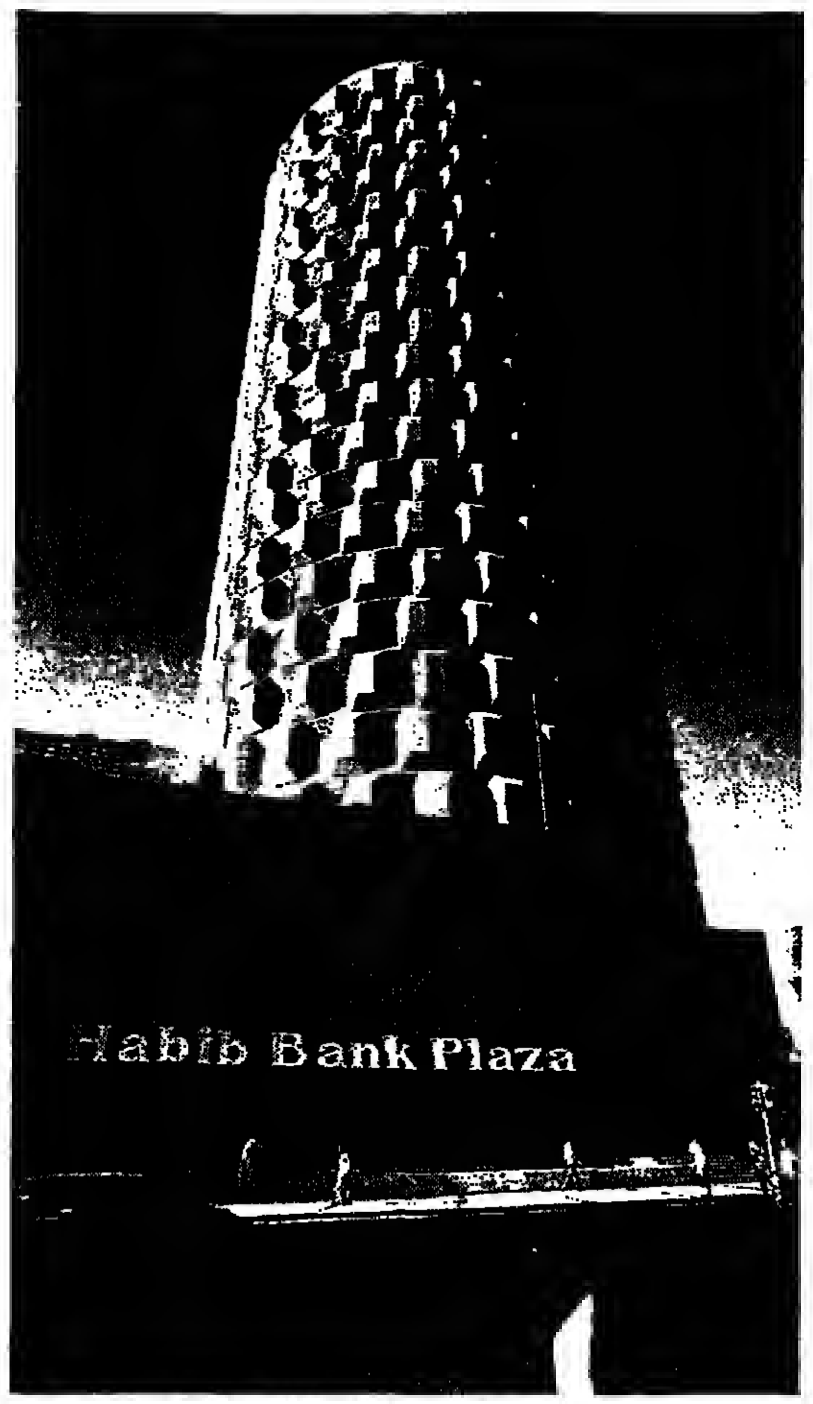
Some bankers are convinced that new contracts signed this year in the energy sector, worth up to $12bn, have created opportunities for foreign banks to further improve their impressive performance of recent years. According to estimates by Pakistan's central bank, all the local commercial banks (public and private) had total deposits worth Rs436bn by the end of this summer at their 7,738 branches across the country. However, the foreign banks, with a total of 74 branches, had deposits of approximately Rs120bn, or more than a quarter of those of Pakistani banks.

"The nationalised banking sector has become so inefficient that new commercial and investment banks have an opportunity to eat into their market share," says Mr Nessar Ahmed, president of Cresbank, one of the 11 investment banks. However, such optimism does not hide the memory of this year's large banking scandal involving the Mehran Bank – a private bank.

The bank's chief operating officer was arrested on charges of fraud, after allegations that he had given large loans to influential clients in return for personal favours which eventually led him to amass a fortune running into several hundred million rupees. The government claims credit for moving fast to protect depositors' interests in that bank, despite concerns over inadequate laws.

Even if Pakistan is able to live up to the challenge of regulating private banks to protect consumer interests, the sector would still be left to deal with the public sector banks. Some bankers say that, before putting up the two banks for privatisation, the government will have to reveal their exact financial picture, and give the new management full power to hire and fire in order to trim over-staffed operations.

"When we bring these issues [banks] to the market, we would have to make a full disclosure, and that is the only way to get a genuine investor," concedes Mr Naveed Qamar, chairman of the privatisation commission, responding to those concerns. Despite that commitment, no one knows what the response would be to such an offer.



The country's largest bank – possibly leaning under the pressure of bad debts

Case study: Pakistan Telecommunications

Privatisation flagship

As the country celebrates this year's first public offer of shares in the Pakistan Telecommunications Corporation (PTC), no one can be entirely certain of the company's future, reports **Farhan Bokari**

The government claims that the offer of PTC shares is a huge success. But some analysts regard it as a grave setback – possibly one which has left the PTC's reputation in tatters.

At the root of the controversy lies the claim that clients were provided with misleading information about the scale of the company's operations and the number of lines in use before 6m shares, representing 12 per cent of PTC, were placed on the markets in Pakistan and abroad this year.

This included 1m shares, sold through vouchers of 100 shares each, in Pakistan. After a strong show of public interest in that effort, the government abruptly changed the initial terms and decided to keep all the subscription money.

But that triggered protests from brokers and investors, many of whom expected to make windfall profits of up to 160 per cent, based on projections for future price rises.

At the same time, some bankers also expressed concern over the government's last-minute decision to cancel an agreement with Union Bank of Switzerland (UBS) for a subsequent placement of 5m shares in international markets.

The cancellation came in response to protests from investors, many of whom claimed that the price for the international placement was undervalued and would then force down the market value of shares already sold in Pakistan.

In the light of that criticism, a contract for the placement of the 5m shares was given to Jardine Fleming. That placement brought in approximately $900m, as opposed to an earlier estimate of $500m.

This gave Pakistan an opportunity to claim that it was right in changing the terms of the sale.

But that view has hardly helped to save the company's face, especially in view of the subsequent troubles over the disclosure of information. In less than three months, share prices have fallen by over 20 per cent, due to the uncertainty.

Among other troubles, a delay in the declaration of the results for the fiscal year ending this June has also intensified anxieties among investors.

Despite these difficulties, the government continues to insist that its plans remain on track. Some officials claim that problems such as the delay in the results have occurred because the government is carrying out detailed assessment of the company's assets, so that future investors are provided full information.

> Strong international *competition to take* over the management is expected

"We want to give confidence to the investor that the telecommunication sector will not be part of the whim and fancy of a state, but that anybody who comes within the framework [of the new terms] will know very clearly what his rights and what his obligations are," explains Mr Shahid Aziz Siddiqui, a senior official in the government's communications ministry and a member of the PTC's board of directors.

According to Mr Siddiqui, the company's new management will have exclusive rights to the market for up to seven years, so that it has a certain degree of security.

The government plans to start inviting offers by the end of next summer from "strategic investors" – a term used to describe large telephone companies or business groups which are willing to buy at least 26 per cent of the shares and take over the management. If there are no further delays, the new management may step in by early 1996.

Some officials expect strong international competition, based on the different companies which have made inquiries. According to one official involved in the preparation of the privatisation plan, these have included AT&T, Australian Telecom, Singapore Telecom, Alcatel and Cable & Wireless.

In addition to inviting these offers, it is planned that a new company shall be set up, called the National Telecommunications Corporation (NTC), to provide service to the defence forces and government offices. This is in response to concern that private ownership, especially foreign, taking over the telephone company would create new security risks for the country. These concerns have delayed privatisation efforts for almost three years.

Some businessmen are worried that Islamabad risks alienating international investors if there are any further delays.

"The more the delay, the greater the possibility that companies looking at PTC will look elsewhere," cautions Mr Farooq Hasan, chairman of Paktel, Pakistan's largest mobile telephone company, a joint venture with Britain's Cable & Wireless as the lead foreign partner.

"Nowadays, there are other countries which are trying to privatise the telephone business, too," he adds.

However, Mr Hasan concedes that the government faces a dilemma, because of all the work that needs to be done, such as the provision of full financial details and preparation of the latest company results – "they face a dilemma too, the PTC cannot be given when it is only half-cooked," he says.

Tim Burt reports on the growing multinational presence

Surge of foreign capital

Pakistan has opened its arms to overseas investment with some of the most liberal economic policies yet seen in Asia: it has been rewarded with an inflow of foreign capital which is the envy of some of its neighbours.

In the past four years, successive governments have reduced tariffs; deregulated the market; made the rupee fully convertible; and begun to sell-off state industries. The moves, encouraged by the World Bank and IMF, have resulted in a total of $1.24bn of direct investment being attracted since 1990.

Portfolio investment has risen to $865m - a figure likely to rise sharply after the public listing earlier this year of Pakistan Telecommunications, the state telephone company.

While foreign fund managers have been wooed by privatisation, more than 200 multinational companies have embarked on joint ventures and partial acquisitions. Their presence is reflected on the Karachi Stock Exchange, where the KSE-100 is peppered with foreign names such as ICI, Lever Brothers, Glaxo, Shell and Reckitt & Colman.

The government of Ms Benazir Bhutto has also signed a host of lucrative investment deals which, according to the Overseas Investors Chamber of Commerce, could push the total value of direct investment beyond $25bn by the end of the decade.

"It is an extremely positive environment for foreign investment," says Mr Nisar Memon, president of the chamber. "We've seen an acceleration which has surprised even those who said it would never happen."

The cynics point out, however, that initial contracts signed by overseas companies may not be taken up. There is also concern that the growth in portfolio investment has not been matched by any sizeable increase in direct investment. This has remained steady at $300m-$350m a year, while portfolio investment has increased from $84m in 1990 to $339m last year.

"The challenge now for the government has to be converting portfolio investment into direct investment," says Mr Farrukh Khan, chief executive of Karachi-based BMA Capital Management. "For that to happen there has to be better infrastructure, consistent policies and a solution to the law and order problem."

With limited reserves to spend on infrastructure projects and no end in sight to violence in Karachi, the government is in a difficult position. It has secured some invaluable investment projects - dominated by the $1.6bn Hub power project, backed by National Power of Britain and Xenel of Saudi Arabia - and others are tantalisingly close. But business leaders warn that unless it gets a grip on unrest in the commercial capital, the investment effort will be undermined.

Mr Byram Avari, chairman of the diversified Avari hotels and manufacturing group, warns: "Direct investment will suffer if disorder worsens. Pakistan may be considered too risky and companies could have trouble raising loans for developments."

There are similar concerns at ANZ Grindlays Bank, where general manager, Mr Azhar Hamid says: "We need strong arm tactics to control the situation. If Sindh and Karachi are not stable it will be a serious blow to investor confidence."

At the Overseas Investors Chamber of Commerce, Mr Memon admits security measures could affect the cost of setting up in Pakistan but he takes heart from the fact that most multinationals have maintained a presence despite periodic outbreaks of violence.

Gordon Wu: Hong Kong business leader investing in Pakistan

The government has played down the security fears, concentrating instead on its privatisation record - Rs13bn has been raised from the sale of 60 state companies - and its success in attracting investment from south-east Asia and the Pacific Rim.

Its satisfaction is understandable. Toyota, Honda and Suzuki have established joint ventures; South Korea's Hyundai Motors has submitted outline plans for a plant in Lahore and, in the biggest deal yet, Hong Kong business leader Gordon Wu has signed an agreement to build an $8bn coal-fired power station.

Investors in the energy sector have also stepped up their activity. Union Texas Petroleum plans to spend $173m over the next three years, while Lasmo - the UK exploration group - is moving towards full production in its Kadanwari gas field, where $180m has been invested.

Mr Joel Dykstra, business co-ordinator at Lasmo's international division, says the group may consider bidding for state-owned gas facilities. National Power is looking at Pakistani privatisation issues too. Mr Philip Smith, director of treasury, says it "would take an interest where there's an opportunity to develop a stake".

All this suggests that overseas executives are not as concerned about the law and order problem as their Pakistani counterparts, but other hurdles remain. One senior western economist in Islamabad warns that difficulties in raising debt finance could slow down the pace of investment.

Concerns remain that corruption, too, may prove a powerful deterrent to some companies. One foreign executive, who asked not to be named, says his company paid $3.6m to "fixing agents" who helped secure a lucrative deal.

Emerging markets analysts in London warn that although Pakistan has stolen a march on its neighbours, growing investment opportunities in countries such as India may dent the inflow of foreign capital. "Companies and institutions are using spare cash to chase these deals. If something deterred them or they saw better prospects elsewhere, the flow could dry up in six months," says one analyst. Some investors are also said to have been unnerved by the government's handling of the PTC sale, which was overshadowed by errors in its prospectus and problems with voucher distribution.

With $15bn of privatisations planned before the end of the decade, the government is, therefore, keen to reassure investors and has turned to the Pakistan Investment Board to help overseas companies. This provides a one-stop shop which smoothes the way through the bureaucratic maze and obtains ministerial authority for new projects. "We market a package of incentives tailored to investors' needs," says Mr Mohib Ullah Shah, secretary of the PIB.

Citing its success in winning approval for new investment, he adds that ICI Pakistan received clearance for a $400m plant to manufacture pure terephthalic acid within 30 days.

Mr Naseem Mirza, chairman of the company, was impressed. "There was a time when that would have taken three years," he says. "We have overcome the problems because we've been here for a long time. New investors have more anxieties - for them it may not be so easy."

Profile: ICI Pakistan

Soda ash leads to much more

Soon after arriving at Khewra, Mr Richard Banks decided that the salt mines of the Punjab would sustain a lucrative new offshoot for Imperial Chemical Industries, as the British group was then known.

His 1929 excursion - overland to Marseilles, steamer to Bombay and train to Lahore - proved extremely worthwhile. The business, founded on soda ash, has grown into one of the company's most important overseas subsidiaries - boasting sales last year of Rs4.7bn.

"ICI had expansionist ideas and a number of us were selected to go foreign parts," recalls Mr Banks, now aged 92. "The company knew it would have to start manufacturing overseas, and it wanted to find the best sites."

By negotiating a deal to extract Khewra's salt free of tax, the ICI engineer enabled his employers to exploit cheap reserves of the basic material for soda ash, an important ingredient in products such as soap, paper and glass.

He helped persuade the company to set up a manufacturing plant in what was to become Pakistan, a country where today it is a leading supplier of not just soda ash, but also polyester fibres, paints, agrochemicals and seeds, chemicals, pharmaceuticals and consumer products.

Rising demand for those activities, with the exception of agrochemicals, helped lift pre-tax profits last year by 30 per cent to Rs639.5m.

From its beginnings at Khewra, ICI Pakistan - in which the UK parent retains a 61 per cent holding - has become the fourth largest company on the Karachi stock exchange with fixed assets of Rs1.36bn and reserves of Rs128.6m.

Mr Naseem Mirza, chairman and chief executive, says the company's strategy has not changed much since Mr Banks was dispatched from England. "We want to grow aggressively where we have market strengths and step out into new areas."

As part of that vision, ICI Pakistan plans to spend $400m on building a chemicals plant to manufacture pure terephthalic acid, used in producing polyester fibre.

The plant will have a capacity of 400,000 tonnes a year, and represents one of the country's largest-ever industrial investments.

The company will also spend up to Rs4bn to expand its polyester stable fibre operations in Sheikhupura, increasing capacity by 50,000 tonnes a year, while investing a further Rs200m on a new power generation facility and Rs15m plant to manufacture calcium carbonate at Khewra.

It is spending another Rs1bn to expand its soda ash capacity in Punjab by 50,000 tonnes a year, and is installing a new plant to manufacture 10,000 tonnes of sodium bicarbonate.

By investing more than Rs3bn on expanding its businesses over the past 10 years, ICI Pakistan has emerged with considerable muscle in the increasingly important industrial lobby. Unlike smaller companies, it has no reservations about offering advice to the government on economic policy.

In its last annual report, the company says the government must mobilise resources "particularly to improve population control, health, education and infrastructure".

It also calls for the "elimination of exemptions and concessions given in the past, which, according to some estimates amount to a staggering Rs18bn per annum in lost revenue".

Mr Mirza applauds government efforts to liberalise the economy and attract foreign investors, but he warns the Bhutto administration not to neglect the interests of its largest domestic companies.

While welcoming the principle of tariff reductions, he adds: "To suddenly dismantle the tariffs would be a disaster. All industry in Pakistan have been helped by [protection] barriers, so there must be help to adjust."

Before considering its latest round of investment - funded from borrowing and rights issues - the group also sought government assurances that fiscal policies would remain consistent.

Mr Mirza, who has an armed guard outside his office in Karachi, wants the government to take action too on curbing violence in the city.

"This is the gateway to Pakistan and this is where everyone arrives first. We must get the law and order situation sorted out or it could create anxieties among new investors."

ICI Pakistan, however, has no such anxieties. As it prepares to celebrate the fiftieth anniversary of soda ash production, Mr Mirza says it is here to stay.

"This is a good place to invest," says the chairman. "But as we have found out, you must have the right products and make sure that they can capture the market."

Tim Burt

Profile: Atlas Group

Keen for competition

When, more than four decades ago, a young reporter with leftist leanings resigned from his job in protest after his editor was arrested in an anti-left clampdown, he began a journey which has made him one of Pakistan's most successful businessmen.

Mr Yusuf Shirazi, chairman of the Karachi-based Atlas group which owns seven companies listed on the stock market, now wants his country to make a similar sharp turn around away from years of government-backed industrial growth to one driven by its own competitive edge.

He is convinced that Pakistan's acceptance of International Monetary Fund conditionalities and the government's decision to reduce tariffs in line with the new global trade agreement, will force businesses to prepare for stronger international competition - "the entrepreneurialism should now begin, led by competitiveness, rather than state subsidy. Only the fittest will survive," he says.

Mr Shirazi claims that Atlas group has succeeded in keeping up with changing times. Starting with an initial investment of Rs500,000 in 1962, Atlas has now emerged as one of the leading companies on Pakistan's business horizon. Some of its more visible interests include insurance, investment banking and leasing, as well as a Honda car plant which opened this year in Lahore, a Honda motor-cycle factory, an engineering spares company and a vehicle battery production plant.

Results for its listed companies last year saw profits rise to Rs437.5m and paid-up capital at Rs1.1bn ($35m). Fixed assets stood at Rs5bn ($160m) and sales reached Rs8bn ($255m). Earnings per share for the entire group were Rs4.37, or roughly 40 per cent of paid-up capital.

On the back of that success, the group's plans include exporting motorcycles to Bangladesh, Nepal, Sri Lanka, Ghana and the Middle East.

The Atlas investment bank and leasing companies are also examining prospects for opening branches in the UK, Middle East and south-east Asia.

Mr Shirazi concedes, however, that doing business is not always easy. Policies pursued by successive Pakistani governments, for example, exempted from tax under-developed parts of the country, giving these areas large incentives to encourage industrial growth. This placed areas of developed industry at a severe disadvantage, denting profit margins. Mr Shirazi also criticises the taxation system - he is well placed to do so, having served as a tax official for almost eight years). One of the biggest problems faced by many businesses is the growing practice of deducting tax at source, rather than allowing businesses to pay at the end of the year, he says. As a result, the system is abused with some employees of the tax department allegedly demanding up to 38 per cent of the refunds in bribes.

Mr Shirazi retains a strong belief in Pakistan's future, even if some problems make the country look "unpromising" in the short term.

Farhan Bokhari

Farhan Bokhari on the textile sector's problems

Pockets of hope sought

Pakistan's large textile industry is reeling under the pressure of more than two years of losses suffered by most of the country's spinning units. As a result, many textile industrialists are convinced that they will not be able to recover, unless bailed out by the government.

"The industry is heading towards collapse," complains Mr Riaz Tata, chairman of the All Pakistan Textile Manufacturers Association, (APTMA) the national association of the textile industry.

The spinning sector has been hit hardest by the crisis. According to Mr Tata, up to 30 per cent of the country's 8.3m spindles have been forced to stop production. Some officials estimate that up to 90 per cent of the largest 446 spinning units have defaulted on bank loans.

Once again this year, the extent of the problem will be determined by the cotton crop, which the government hopes will reach its estimated 9.5m bales, as opposed to newspaper forecasts of a possible shortfall of at least 1m bales. After crop failures for two years in a row, Pakistan's textile sector can ill afford another year of failure which would only lead to higher raw material prices.

Despite such concerns, the government is convinced that recent agreements with the European Union and the US to increase the quotas for Pakistan's textiles would help to improve exports. That could be crucial for the country's trade balance as it relies for up to 60 per cent of its export earnings on cotton-related products.

At the same time, Islamabad has agreed to open up its domestic market to garment imports as part of the government's commitment to reduce tariffs to an average 35 per cent by July 1996, from more than 75 per cent.

"The sky is the limit. It now depends on the industry," says Mr Ahmed Mukhtar, the commerce minister, who has been urging businesses to become more competitive in response to the new opportunities. Senior officials at the commerce ministry are convinced that improvements in the quality of T-shirts and fabrics during the past few years will help the country's exports, and create new pockets of hope for the textile sector.

Inside a silk shop in Peshawar — Sarah Murray

The ministry is urging exporters to enter into joint ventures with established foreign enterprises in quality garments, so that they can have a stronger edge over their international competitors. "A shirt costing the equivalent of US$8 in Pakistan can fetch at least twice that price in retail on Oxford Street in London. We have to become aggressive enough to be able to force our way ahead," says one official.

Some exporters take the cue from such encouragement and say that they are prepared to meet the challenge. "There are countries that don't have cotton of their own, and they are competitive and surviving,"

A new system of selecting quality cotton may be introduced

says Sheikh Mohammad Obaid, Pakistan's largest exporter of towels and bed-linen.

Mr Obaid discounts fears over the effects of the cotton losses and expects the new quotas to generate increased business. He now wants to see a greater push towards manufacture of quality garments so that textile exports generate more revenue.

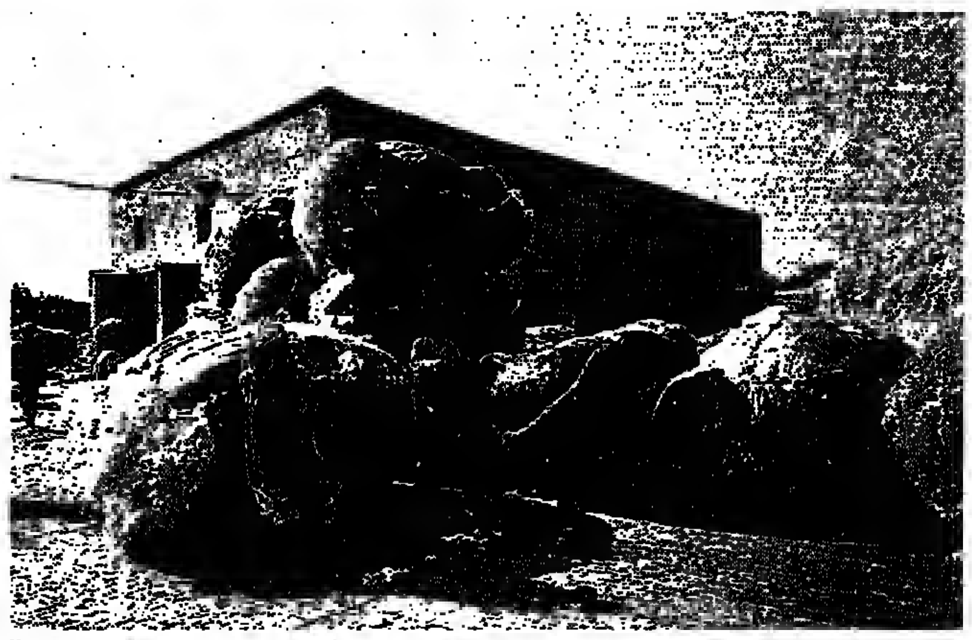
However, Mr Tata is convinced that the textile sector will need to improve its own performance after years of neglect. He believes the government should immediately privatise the large public sector banks, so that the money which is wasted in the large administrative costs for running over-staffed and inefficient banks could instead be used to give more credit to businesses.

Other industrialists are also urging the government to introduce stringent regulations for grading of cotton and improved quality of ginning, so that the textile business can prepare itself to produce internationally recognised products. "The quality of ginning is not up to international standards," concedes Mr Mukhtar.

Senior officials say that the government has begun to look at these problems with a view to introducing a new system of selecting quality cotton before it is processed. Despite the country's ambitious targets, especially after the recent quota increases, some industrialists are convinced that a solution to the spinning crisis holds one of the most important keys to long-term growth prospects.

In an effort to stimulate growth in all sectors of the economy including textiles, the maximum bank lending rate has been lowered from 19 per cent to 17.5 per cent this month. The government has also waived interest payments on loans given by the public sector banks since 1992 to help the textile sector repay its debts.

However, it may be some time before any signs of recovery become evident.



The cotton market: will the crop fall short of initial estimates?

Cotton farmers and manufacturers are anxious for a good harvest, writes **Tim Burt**

Textile industry may need imports

Farmers across Punjab, the heartland of the cotton industry, are anxiously scanning their crops for signs of a good harvest.

They are not alone. A bumper crop would draw sighs of relief not only from the farming community but also from the textile industry, which depends on home-grown cotton. The government would be similarly relieved after seeing production of its main export earner fall from 9.1m bales to 7.9m bales last year – almost 40 per cent below the record 12.8m bales produced in 1991.

The collapse – blamed on pest attacks and heavy rains – sent shock waves through the economy. For cotton production underpins a textile industry that employs 35 per cent of the total labour-force, and supplies raw materials to more than 1,000 ginning factories and hundreds of mills.

Hopes of a recovery this year, however, have been dented by reports of a poor harvest in Sindh, where prolonged rainfall has ruined much of the crop. Although the southern province produces less than 20 per cent of Pakistan's total output, the Small Landholders and Farmers Association says the situation is no better in Punjab, home to the progressive farmers who once boasted some of the world's highest yields.

Mr Ishtiaq Jafari, chairman of the association, claims that only 5m bales will be harvested this year, far short of government estimates of 9.5m bales. Pests have destroyed about 30 per cent of the crop, while up to 20 per cent may have been ruined by rain, according to the association.

Its gloomy forecasts are rejected by Mr V.A. Jafarey, adviser to the prime minister on finance, who accuses Mr Jafari of deliberately playing down the industry's prospects.

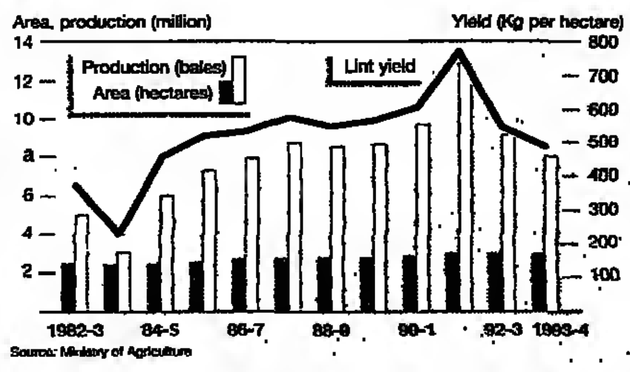
"The growers say the crop is bad just to push prices up," he says. "The real position is far from clear. There has been damage in Sindh, but some parts of the Punjab have harvested more than last year."

Privately, government officials and western economists admit the crop will probably fall short of initial estimates, with output hovering in the region of about 8m-8.5m bales.

That may be bad news for the textile industry, which together with raw cotton accounted for 68 per cent of Pakistan's total exports in 1991-92. Domestic consumption alone has exceeded 8.5m bales in recent years, and the country could lose Rs7bn ($228.6m) of foreign exchange earnings if there is insufficient production for overseas sales.

If the crop fails to meet even domestic needs, the textile companies would be forced to import higher priced overseas cotton, increasing their costs and squeezing profit margins.

Cotton



Source: Ministry of Agriculture

The knock-on effect could be dramatic. The textile companies represent almost a third of all companies listed on the Karachi Stock Exchange, and the market invariably falls on bad news from the cotton growers.

Aware of the grim prospects for Pakistan if output stagnates, the government has set up a Cotton Resource Group to investigate the fall in production and suggest remedial measures. In its first report, the group blamed the decline not only on persistent rain and viruses, but also on the decision by many farmers to abandon cotton altogether or their failure to protect crops with adequate pesticides.

A large number of farmers have switched to sugar cane in Punjab, prompting a 1.89m-hectare contraction in the area used to grow cotton.

Yields per hectare, meanwhile, fell 14 per cent from 574kg to 493kg last year – almost half the 1991-92 total – following an attack of cotton-leaf virus. Some 1.88m bales were lost, worth more than Rs19bn at current market prices. A further 1.65m bales were also lost to attacks by whitefly and aphids.

"I don't think production will ever get back to 12m bales," says one Punjabi cotton farmer, who asked not to be named. "Too many hybrid species have been introduced. They are more susceptible to viruses, and the first crop has been horrendous."

In a bid to improve yields, the Cotton Resource Group has drawn up a list of recommendations. Implementing them requires significant government intervention at both federal and provincial levels, to ensure that new rules take effect and existing regulations are followed more tightly.

The group, for instance, wants the government to reduce pesticide prices by abandoning the 27 per cent tax on imported products, which puts some of the best brands out of reach for small farmers.

They also recommend tougher control of pesticide dealers, who have been accused of diluting products. Other demands include improved water supplies, better seed distribution, and new credit facilities for farmers.

Although most of the measures have not been costed, the group said Rs55m was need just for research on combating pests and viruses.

The Pakistan Central Cotton Committee has gone further and urged the government to give farmers interest-free credit facilities; incentives to combine production in co-operative farms; and crop insurance.

This leaves the government with a dilemma. It has few reserves to meet all the farmers' demands, but the knock-on effects of ignoring them may be even more costly.

Leaving the cotton industry to market forces could persuade more farmers to switch to other crops, and deprive the textile industry of raw materials. In turn, that could lead to widespread factory closures and higher unemployment.

With the ruling Pakistan People's Party relying on rural areas of Punjab and Sindh for the bedrock of its political support, it is unlikely to abandon the industry in a hurry.

Indeed, the findings of the Cotton Resource Group have already been endorsed by the National Agriculture Co-ordination Committee, which helps to formulate policy.

An injection of government funds and incentives is likely to boost the industry, but it may be only a temporary diversion for a farming community moving inexorably towards a more diversified crop base.

Religious observance has declined but fundamentalists continue to wield influence, reports **Stefan Wagstyl**

Islamic fervour still affects public life

Qari Saeed-ur-Rahman, an Islamic scholar and preacher, shook his head sadly and said: "I am afraid Pakistan is becoming less Islamic by the day. People have no image of *Islamic society in their minds.*"

Even as he spoke, earlier this month, in his mosque in Rawalpindi, another preacher working a few hundred miles away was trying to make a reality of his particular image of Islamic society. Armed militants acting in the name of Maulana Soofi Mohammed had seized control of the district of Malakand in the mountains of the north-west frontiar and imposed Islamic law. It took the security forces a week to recapture the territory.

While one mullah bemoans the decline of religious faith, another leads his believers into battle. There could not be a greater contradiction over the role of Islam in contemporary Pakistan.

In the country as a whole, the intensity of religious observance is almost certainly on the decline – as Qari Saeed notes. But, on the margins, fundamentalist fervour is almost as strong as it was at its peak in the 1980s during the Islamic jihad (holy war) against the Soviet occupation of Afghanistan.

The arsenal of guns and ammunition left from the Afghanistan war has put power into the hands of armed groups, some of them committed to a new jihad in Pakistan. Radical preachers often take advantage of the country's miserably low levels of education to fill young minds with ideas they are unable to question.

Fundamentalism is a difficult challenge for Pakistan. As a country created for Moslems, it must necessarily have a strong Islamic identity. Yet, it also has to accommodate significant minorities of Hindus and Christians, and cope with the competing demands of a *Sunni Moslem majority and* a Shia minority.

Moreover, the government must pursne economic and social development without alienating too many conservative Moslems who hold strong views over matters like the social emancipation of women. Finally, Pakistan'a two higgest foreign policy issues – the long-running conflict with India over the troubled region of Kashmir and the civil war in Afghanistan – are overlaid by religious considerations.

While Moslems, Hindus and Christians have clashed for centuries in the Indian sub-continent, the need to live together in close proximity also brought long periods of peace.

Mohammed Ali *Jinnah*, Pakistan's founder, and the country's early leaders showed little interest in rigidly enforcing Islamic codes. Often educated in mission schools and in British universities, their views had little in common with the faith of their people.

Yet as the euphoria of building a new country evaporated, religion became an increasingly powerful force in public life. Ironically, it was Mr Zulfikar Ali Bhutto, a western-educated prime minister, who in the 1970s was forced by pressure from the mullahs to move the weekend from Saturday-Sunday to Friday-Saturday. A connoisseur of *whisky and fine* wines, Mr Bhutto was also persuaded to ban alcohol consumption.

However, it was left to General Zia-ul-Haq, the military dictator who overthrew Mr Bhutto to pursue Islamicisation in earnest. Using the support of the mullahs to give legitimacy to his undemocratic regime, he imposed strict controls on puhlic displays of art, *films and theatre, extended* the teaching of Islam in schools and encouraged the strict observance of public prayers, notably in government offices.

Cosmopolitan Pakistanis remember the 1980s as grim and repressive, but for most mullahs it was a golden age, when the country's energy was *focused on* the jihad in Afghanistan. Qari Saeed says: "General Zia did not bring full Islamic laws, but be made progress."

General Zia's death has been followed by a moderate easing of pressures in society to conform to Islamic codes of conduct. Among the élite, people hosting parties at home have become *less cautious* about serving alcohol, though public consumption remains illegal. Video recordings of western films abound. Art galleries and theatres are hroadening their offerings a little.

Jamaat-e-Islami and other Islamic parties, which held considerable influence under General Zia, have seen their support slump – to just five seats in the 217-member National Assembly in last year's general election. The vociferous condemnations of the Islamic clergy, who believe a woman cannot lead an *Islamic country, have failed* to prevent Ms Benazir Bhutto winning two general elections.

For Mr Altaf Gauhar, a veteran journalist and magazine editor, this is evidence that talk of "rising fundamentalism" in Pakistan is "a huge hoax.

"Ordinary people saw the Islamic system in action under Zia. They don't want it back," he says. Yet, even if people are willing to dispute the clergy's will at the ballot box, and to some extent in their private lives, they are still cautions about making any kind of public *challenge*. The *mullahs* retain the sole right to interpret the faith – and are apt to condemn any challengers as heretics. For example, when Ms Bhutto visited France recently, she intervened in the controversy over the protests of French Moslems against a ban on their daughters wearing headscarves to school. Ms Bhutto told them that it was enough to wear the veil in one's heart. Qari Saeed, for one, was furious – "she has no right to speak on this matter," he says.

Children being taught about Islam: will they keep the faith?

An equally serious debate *concerns* the implementation of Islamic law, or Sharia, in Pakistan. All political parties are agreed on the principle of introducing Sharia. The debate centres on how to put it into practice.

In its purest form, Sharia prescribes only physical punishments for crimes – from flogging to death – and fines play a very small part. But it would be difficult for Pakistan to evolve a modern economy without financial penalties for business-related offences. Also, many mullahs believe that Islam invests in them the right to be judges. But the government would prefer to introduce Sharia by overhauling existing laws and courts to give them a more Islamic flavour.

This is not a theoretical argument. The uprising in Malakand followed a supreme court decision in February striking down existing laws governing the tribal areas in the north and north-west of Pakistan. The court declared the laws unconstitutional on the grounds that the government's legal writ runs *only in the* settled regions of Pakistan and not in the tribal areas, which joined the country in 1947 under a special treaty between the government and tribal leaders.

Islamabad was slow to react to the Supreme Court order. Mr Maulana Soofi, a fundamentalist who refuses to have his photograph taken for fear of offending God, took advantage of the delay to implement full Sharia law in Malakand.

But even such an extreme development as an armed uprising generates only muted protests from many Pakistanis. The fear of offending the mullahs affects even politicians. As Mr Fateh Mohammed Khan, the senator for Malakand, says: "They (the insurgents) held me in my house (during the uprising). But if I spoke out against them they would tear out my tongue. They would kill me."

Silence allows the mullahs to win arguments by default. Extremists in the lawless tribal areas are free to *establish and* train armed bands. So the religious fundamentalists are able to exert far more power than the people are willing to give them at the ballot box.

Need for social progress

Labour force of 10m children

Paklatan's record on social welfare is visible on almost every street corner. Malnourished children wait at traffic-lights to heg from motorists or sell newspapers which they will never read. In rural areas, many work the land or provide labour in rice mills and hrick kilns, *writes Tim Burt.*

In Peshawar, capital of North West Frontier Province, children as young as six work in the kilns, mixing mud and filling brick casts. Impoverished families – most earning less than Rs2,000 a month – cannot spare their children for school and send them to work as *patheras*, 'the hrick makers.'

A survey of 20 kilns by the United Nations Children's Fund (Unicef) found almost 400 school-age children at work. In a damning indictment of a country where the labour force includes 10m children under the age of 15, Unicef says it was startled by the "high rate of illiteracy, lack of family planning, exposure to health hazards, inadequate or total lack of medical facilities, deplorable sanitation and a general impression of being bonded to this way of life."

Those problems are not confined to child labour. They are endemic in poorer parts of Pakistan. The 1994 Human Development Index, compiled by the United Nations Development Programme (UNDP), ranks Pakistan behind neighbouring countries in many of the key measures of social progress.

Its annual popnlation growth exceeds that of India, Sri Lanka and Bangladesh. Its performance, moreover, in school enrolment, adult literacy and the percentage of people in work also lags behind, while access to health and sanitation facilities are among the worst in the region. Addressing the international conference on population and development earlier this year, Ms Benazir Bhutto admitted: "Pakistan cannot progress if it cannot check its rapid population growth."

That is a tall order for a country where the population has grown from 50m in 1960 to 128m today, and is set to double by the year 2017.

Anxious to improve Pakistan's standing on hnman development, the Bhutto government has emhraced and extended an ambitious Social Action Programme (SAP), launched last year by the government of Nawaz Sharif following mounting pressure from international donors and aid agencies. Over five years, the programme envisages $7.7bn being spent on initiatives to curb popnlation growth, improve primary edncation, health care, rural water supplies and sanitation. In the first three years, the government plans to huild more than 32,000 schools, improve teacher training and ensure that teachers stay in rural areas where demand is greatest.

It also aims to revamp health education and train female paramedics. A village-level initiative on family planning is also under way to encourage contraception.

Only a small number of villagers have access to safe sanitation and clean water. Puhlic bodies have a poor record in maintaining water services, so control of new schemes will be transfered to local communities. Hailing the programme as a step forward, Ms Bhutto says it will "educate and motivate our people to a higher standard of living."

Some international aid agencies are not so sure. They claim the programme is too narrow and the government will have few resources to fund its commitment while military expenditure remains at 6 per cent of gross national product – the highest figure in the sub-continent – and debt servicing continues to drains its reserves.

"I haven't seen any evidence of political groups being interested in far-reaching social change," says a senior aid agency official in Islamabad. "Pakistan is not addressing land reform, women's rights or defence spending."

Such officials want the SAP to become a community-based reform programme focused particnlarly on edncating women, who take primary responsibility for family health care and edncation. Female literacy in Pakistan is among the lowest in the world at 20 per cent, and fewer than one-in-five girls complete even primary edncation – "building more schools is irrelevant. The problems are more basic than that," says Dr Tariq Banuri, head of the Sustainable Development Policy Institute. "We need to develop a cohesive village-based education system. It can't be done through centralised management."

His view is echoed by Mr Jim Mayrides, head of the Unicef mission in Islamabad, who says female literacy is the key to improvements in basic healthcare and hygiene. "If they could read and write, it would help spread the message of how to treat diarrhoea and respiratory infection." Eradicating those two ailments alone would cut infant morality by more than 60 per cent.

Young children toil in the brick kilns to pay parents' debts

"The political will is there to improve things, hut there is a paralysis in the bureaucracy and the changes are very slow," says Mr Mayrides.

Failure to address these issues could prompt widespread social discontent – "if the rural people were to become aware of the resistance in Malakand and Karachi it could prompt disorder elsewhere," says Dr Banuri. "The risk is complete breakdown in the community."

The government, however, claims the SAP – partly funded by a $200m World Bank loan – deserves praise for at least promising to upgrade basic services in rural areas, where some 24m people are living in absolute poverty.

This poses a dilemma for the aid agencies. They have no wish to derail the programme but they want to broaden its scope to a 10-year horizon, with day-to-day management of the initiatives transferred from local politicians to new community groups.

"These issues are not susceptible to a quick fix," says Mr Philip Regan, deputy resident representative of the UNDP in Islamabad. "More people can be trained, more buildings put up. But they won't have an impact until the long-term problems are addressed."

Comparative profiles of human development

	Pakistan	India	Bangladesh	Sri Lanka
Life expectancy	58.3 yrs	59.7 yrs	52.2 yrs	71.2 yrs
Annual GDP per capita	$400	$330	$220	$500
Annual population growth	2.9%	2.2%	2.7%	1.3%
Health expenditure[1]	3.4%	6.0%	3.2%	3.7%
Education enrolment[2]	24%	50%	32%	68%
Adult literacy	36%	50%	37%	89%
Labour force[3]	28%	38%	47%	41%

[1] As percentage of GDP. [2] Aged 6-23. [3] As percentage of total population. Source: UNDP Human Dev. Index 1994

Agriculture employs more than 50 per cent of the country's working population Camerapix

Tim Burt looks at government plans to revive the sector

Agriculture faces a crisis

Iqbal Mustafa is disillusioned with agriculture. He has tried cotton, grain and horticulture on his 150-acre farm in Punjab. Now he has put the land to a new use – housebuilding.

One of Pakistan's small group of entrepreneurial farmers, Mr Mustafa warns: "The industry is stagnating. Production cannot keep pace with population growth. There are not enough development funds, no infrastructure for getting goods to market, and rural education has totally collapsed."

It is a gloomy assessment of a country in which agriculture employs more than 50 per cent of the working population and accounts for 24 per cent of its GNP. For modern, efficient farming, Pakistan needs to consolidate agricultural land holdings. But rapid population growth is restricting the amount of land available. Moreover, feudal landlords, wbose power is based upon keeping people on the land, resist change.

Mr Mustafa's verdict is all the more depressing because he is not citing personal grievances, but the findings of the prime minister's Task Force on Agriculture, set up last year to assess the state of the industry and proposals to widen the tax net to include farmers for the first time. The task force – bringing together politicians, farmers and rural interest groups – told the government that agriculture was facing a crisis, which was exacerbated last year by a sharp fall in cotton production, the country's principal cash crop and largest farming export.

Output peaked at 12.8m bales in 1991, but fell to 9.1m bales in 1992 and to 7.9m bales last year under the twin impact of heavy rain and viral infections.

The dismal performance by the cotton sector whicb, togather with textilas, accounts for more than half of Pakistan's total exports, pegged agricultural growth to a modest 2.6 per cent.

The disproportionate effect of two years' poor weather and virus problems underlined the structural difficulties of an industry in which only cotton and livestock have outstripped population growth over the past 10 years.

Prolonged dry spells in wheat-growing areas, meanwhile, could reduce yields by more than 6 per cent this year; and rice farmers, who saw output increase 28 per cent to 3.99m tonnes last year, are uncertain whether there is a ready market for any excess produce.

Pakistan's inability to feed itself, let alone develop a commercially-minded farming community, has been further hampered by the absence of an organised seed industry; intermittent or non-existent power and water suppliee; and increasingly fragmented land holdings.

Together with the drain on foreign exchange reserves caused by food imports and the reluctance of some feudal landlords to improve conditions for villagers, it adds up to a massive structural problem for a governmeot already constrained by beavy defence and debt servicing costs.

Even so, Mr Shah Mebmood Qureshi, parliamentary secretary at the ministry of agriculture and former chairman of the Agricultural Task Force, is undaunted. He says the government is determined to solve the malaise – "we have no option but to implement new initiatives. The government is in office because of strong support from a rural population let down by its predecessors."

The Bhotto government has tailored agricultural policy to the main recommendations of the task force, which identified four broad strategies to transform the industry:

■ The development of a demand-driven industry using credit to boost production, along with aid for e new processing industry.

■ Reducing the transfer of resources from agriculture to other sectors.

■ Fresh investment in rural infrastructure and the formation of new institutions to monitor the policy framework.

So far, tbese policies have been dominated by the deciefon to make farmers pay income and wealth taxes, levied by provincial authorlties and the federal government respectively. Collecting those taxes, however, could run into opposition from feudal landlords, wbose patronage playa an important part in tbe careers of some politicians.

"I had a feeling I was going to be lynched when I first proposed it," says Mr Qureshi.

Other new initiatives have also run into problems. Plans to offer farmers credit to buy low-priced tractors, imported from Poland and Belarus, have prompted etrong resistance from local manufacturers, which argue that it would lead to large-scale losses.

Governmeot critics, meanwhile, claim that increased fixed procurement prices for main crops and new credit facilities for small farmers could lead to abuse of the reform process.

Wheat farmers, who saw production rise from 14.7m tonnes to 16.4m tonnes last year, have enjoyed price increases of almost 20 per cent, while sugar cane prices have risen 14 per cent.

"We must reduce government intervention in agriculture," says one lobbyist. "Support prices were designed to save farmers from ruin, rather than generate profits."

Others ask where the government will find the resources to fund schemes, such as those to improve the rural road network, computerise land records and ensure year-round fertiliser supplies.

Upgrading rural roads would cost Rs240bn alone, according to the Agricultural Task Force, and a further Rs120bn is needed for education in outlying villages.

Altbougb some of the demands will be met by the government's Social Action Programme, Mr Qureshi admits that it will not cover the full financial requirements – likely to run into "billions of dollars".

Nevertheless, he claims Pakistan could become self-sufficient in food production within five years if the government implements measures to modernise the sector.

But if it fails to raise poor farmers above subsistence level, or reduce the reliance of richer farms on state handouts, there could be a far-reaching upheaval in tbe industry.

That process may be accelerated if this year's cotton crop falls short of government targets of 9.5m bales.

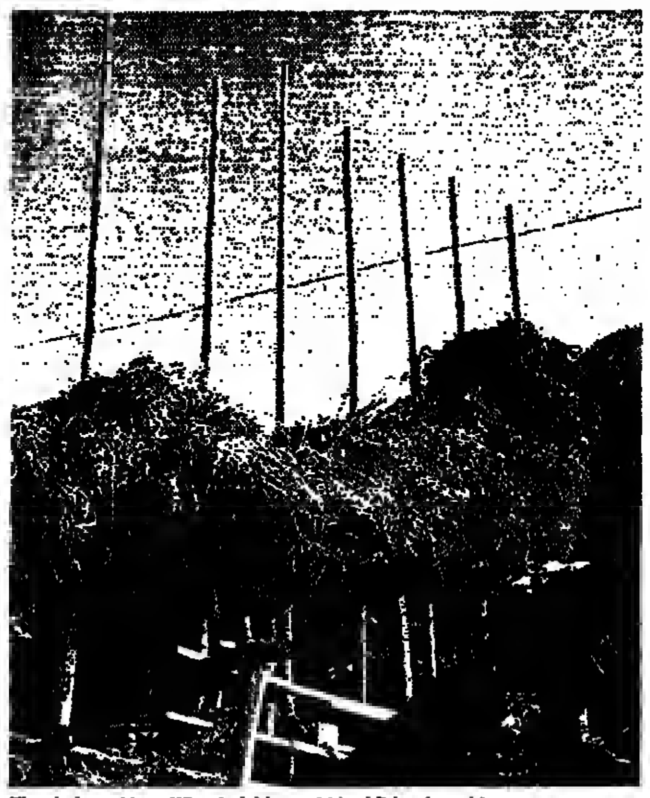
Most industry analysts expect a crop of no more than 8.5m bales, and the Small Landholders and Farmers Association has warned that heavy rain and pest problems could leave full-year production languishing at about 5m bales.

Mr Mustafa, who halped draft the task force report, suggests that rapid contraction of the industry could be a blessing in disguise – forcing a shake-ont of inefficient and loss-making farms and increasing tbe pressure for land reforms.

Changes, to make land acquisition and disposal easier, would allow more efficient farms to expand, he says. But successive governments have avoided tackling the issue.

"What Pakistan needs is fewer, mora technically advanced farms supplying higher quality produce," he says.

"The problem is that land in this country is associated with political power, rather than commercial potential. That won't change overnight."



The drying of hay. Wheat yields could be hit by drought Sarah Murray

Life in Qillah village

Luck is a place at school

Mohammed Maqbool does not enjoy the rice harvest. By the time he starts work in the fields, he will have been up since 5 in the morning and he will not rest until sunset.

Gathering crops is hard work for a nine-year-old boy, especially after a morning of chores and schoolwork. Wiping the dust from his face, Mohammed says he would rather be a policeman.

Life in uniform is an alluring prospect for boys brought up in the fields and alleys of Qillah, a ramshackle collection of mud and brick buts in the heart of Punjab.

The landlord of the village is unimpressed. "You want to take bribes and beat people up," he jokes. "What kind of life is that?" The sarcasm hides a deeper concern – that today's children will leave the village for the bright lights of Lahore, Pakistan's second largest city, less than 40 miles away.

Mohammed has never travelled beyond the nearby market town of Mandi Faizabad but he has glimpsed the outside world on one of the 17 television sets in the village – home to some 80 households.

"What will they make of MTV?" asks the landlord, whose family has owned the surrounding 550 acres for more than 40 years. "My great worry is that the next generation will want nothing to do with the land."

His pessimism is probably exaggerated. Fears that today's children will abandon farming underestimate the grip of agriculture on the rural workforce.

For all its drawbacks, most labourers prefer village life to tha unplanned urban development of Mandi Faizabad. The congested market town is littered with abandoned vehicles, broken-down shops and the skeletons of tractors stripped for spares. Food stalls cast a pall of smoke across the area, and residents defecate in the road.

It is not surprising villagers stay on the land, which at least promises fresh produce and modest profits. Qillah may be under-developed, but it is relatively prosperous compared with settlements in poorer provinces such as Sindh or Baluchistan.

"About 10 per cent of the villagers can read and write," says the landlord. "But that's better than in the more backward areas."

More than 100 children are officially enrolled in the two-room school, although their numbers are depleted by chronic absenteeism.

It is a problem throughout the Punjab, where only e third of children attend primary school. Nevertheless, the prospects are brighter in this village than otbers. If children complete full-time education, the landlord promises to pay for a college place and the first villager has just received a degree.

"We respect him, but it has not made anyone else want to do it," says Mohammed Rafiq, the head farmer.

Instead, Mr Rafiq encourages young men to concentrate on crops: rice, potatoes, guava and citrus. In a good year they can grow 12,000kg of potatoes and sell enough rice to pay for new amenities, although there is still no telephone.

Their prosperity depends on one essential resource – water. The Qadirabad to Baloki canal runs through the village, giving it a high water table. That in turn produces a soil capable of sustaining a variety of produce.

The village also rears buffalo and goats for slaughter – a rare source of income in a country where most livestock is used for motive power.

"This is one of the most progressive villages in the area," says the landlord, who visits once a week to check the ledgers. "We don't prevent them from improving their situation. Not everyone is so lucky."

Luck for the people of Qillah is the right to an education of sorts; the right to leave for the city and to sell their own prodnce. Mohammed Maqbool, whose family relies on dried dung for fuel and canal water for washing, hopes his luck will change.

Tim Burt

INTERVIEW

'Our economy has tremendous potential'

Pakistani Prime Minister Benazir Bhutto talks to Stefan Wagstyl and Farhan Bokhari

Question from the Financial Times: Pakistan's economic policies have been praised by many observers, including foreign businessmen. But there is concern about the country's political stability. What assurances can you give?

□ Benazir Bhutto: Pakistan went through a transition period in which there was tussle between democracy and dictatorship. That tussle ended last year in July 1993 when the military said they were not interested in intervening.

Today in Pakistan we don't have a constitution in name, we have a constitution in fact, we doo't have e democracy in oame, we have a democracy in fact. The military is totally neutral now. It's not doing political work for the government, and its not doing political work for the opposition. Its doing military work, and military work is defending the frontiers of Pakistan.

In the past, many [economic end social] schemes have come on paper but they have not been implemented, but that has been because there has been no popular base in the government. Now there's e government in Pakistan with e popular base. When there's a government with a popular base and grass roots support, it's in e better position to implement its programmes.

There is also concern about law and order in Pakistan. We are addressing the problems of crime. We have inherited a very bitter legacy of sectarianism and of ethnic violence. We have introduced a socio-economic package for Karachi in an attempt to go to the genesis of the causes of resentment among the people of Karachi – that is the lack of transport and the lack of water and lack of sewerage. The government is continuing discussions with the MQM [the radical ethnic political movement in Karachi]. But it's a problem that some people are involved in heinous crimes, such as kidnapping and murder.

□ FT: What can be done about corruption in Pakistani politics?

□ BB: We are committed to the alimination of corruption. That's why we have reduced through institutional means the scope for corruption. For example, we have tightened up our banking laws. In fact, we have declared e morale crusade to cleanse our society from this evil.

□ FT: What are your economic aims and achievements?

□ BB: We are a role model for the IMF ... we have been able to provide very competent management for Pakistan's economic problems. We aimed at macro-economic stability because we believe that without macro-economic stability, micro-economic activity cannot take place at its full potential.

We cut the fiscal deficit to 5.8 per cent of GDP last year and we aim for e 4 per cent deficit next year. Now if this deficit [cut] takes place, we can address the problem of inflation which is the most commoo problem which ordinary people in Pakistan complain about. We have also, in keeping with our IMF commitments, begun lowering peak import tariff rates, which will be lowered further as the years pass by ... also we have sought to improve the taxation collection system.

Much depends now on weather and crops but given good weather and good crops I think Pakistan will be in e good positioo by next year. So, if within 18 months [of taking office] we can bring real economic stability, we would feel proud of that achievement. It would allow Pakistan's economy to take off. I think Pakistan's economy has tremendous potential which needs to be realised.

Agriculture is also an important concern as it employs 70 per cent of the people. We have increased the wheat support price to promote the growing of wbeat end we are expanding edible oil cultivetion to cut dependence oo imports. We have imposed an agricultural tax on rich landlords. It was with much trepidation that we introduced the bill to be passed by the Netional Assembly, because our assembly is traditionally dominated by people from the feudal class. But by the grace of God it was passed.

Benazir Bhutto: 'We have been able to provide very competent management for Pakistan's economic problems' AP

In the energy field we have suffered a tremendous electricity shortfall ... so we announced an incentive package for foreign investors interested in setting up thermal plants. We have hed tremendous response from the world over – and we hope that within five years we will have increased our energy output et least by 50 per cent if not more.

The massive investment of US$12bn, which we have attracted to Pakistan, will trickle down to the people in about two years. Some Pakistanis are very sceptical about foreign investment in Pakistan, but I think it is because they are not aware that the world has changed so dramatically. And in the 21st century we are going to be witnessing a global economy.

□ FT: How will you deal with Pakistan's urgent social needs?

□ BB: Well, I think that if one had to talk about a theme for the government that theme must surely be social revolution, because unlike past governments we have really concentrated on the social sector. This is also evident from the budgetary allocations made by my predecessors and by our government on sectors such as women's development, population planning minority affairs and other development works.

We have set np e human rights cell in the ministry of the interior ... we have also set op an élite anti-narcotics force which is headed by a serving general ... we want to send a message that nobody is above the law. The government is committed to upholding the law irrespective of how high or influential any individual may be.

Once we stabilise the economy and give a sound socio-economic basis to the society we hope to continue on to the larger political problems of how narcotics barons run mafias, how certain tribal chiefs run their own mafias with their own guards and their own laws, how sectarian groups, funded from God knows where, preach the politics of hatred and violence, and how ethnic parties preach hate at one another.

□ FT: What are you doing to improve the lot of women?

□ BB: I've seen myself thet without economic independence, a woman cannot do anything. If my father had not left me with independent means, there's no way that the male members of my family would have permitted me to enter politics. They would have made sure that I didn't have funds or a home or space or a telephone to do a thing.

So that's why I've always believed that the key to e woman's independence is economic independence. We have tried to make Pakistan a role model for other Moslem countries by introducing a system for women's rights in e Moslem society. We have done that by lifting the ban on women taking part in international sports, by setting up a women's development bank which has allowed a mushrooming of women-oriented small industries like garments, slimming boutiques, and beauty salons, in the urban areas of Pakistan.

We have also done that by setting up women's police stations. In some Moslem societies, women are kept behind locked doors. Here in Pakistan women go knocking on doors investigating crimes. So it's a totally different society – it's a society on the move and on the march.

□ FT: There is international concern about Pakistan's nuclear programme and about its dispute with India over Kashmir.

□ BB: As far as Pakistan's nuclear programme is concerned, it is a peaceful programme, but we have shown tremendous restraint in not exporting the technology, in not detonating a device and we feel that this restraint ought to be recognised.

After all, if this restraint is not recognised then what is the use of restraint, especially when I took an opinion poll and 99 per cent people in Pakistan said that we should detonate, so I think it must be recognised that there are tremendous domestic pressures on the government. And if we have an international concern on non-proliferation, we must all work together to strengthen the goal of non-proliferation and not take a myopic view that results in something opposite taking place.

I feel that root cause of tension in the snb-continent ought to be addressed, and that root cause is the political dispute over Jammu and Kashmir, a dispute which is recognised by international law.

PAKISTAN FACT FILE

President: Mr Farooq Leghari. Prime Minister: Ms Benazir Bhutto, (Pakistan People'e Party).

Population and area

The latest estimate is 128m. Density (per sq km) at mid-1992 was 149.6. The main cities are Karachi, Lahore, Faisalabad, Rawalpindi, Hyderabad, Islamabad (the capital) and Peshawar. Pakistan's land area: 796,095 sq km (307,374 sq miles). This excludes the disputed territory of Jammu and Kashmir. The Pakistani-held parts of this region are known in Pakistan as Azad ('Free') Kashmir, with an area of 11,639 sq km (4,494 sq miles). Northern Areas (including Gilgit and Baltistan) have an area of 72,520 sq km (28,000 sq miles). Also excluded are Junagardh and Manavadar. The population figures exclude refugees from Afghanistan (estimated to number about 3.8m).

Languages

Urdu is the national language. English is used extensively in all governmental and commercial circles and is used fairly widely in hotels, airports, railwey stations, post offices and larga stores. Basic English is taught in schools and is the medium of instruction for higher education.

Ethnic mix

The driving force behind the creation of Pakistan was religion, and 97 per cent of the population is Muslim. Of these, the majority are Sunni, the rest being Shia (15/25 per cent). There are small communities of Hindus, mainly in Sindh. There are also Christians in the main cities and Parsis in Karachi.

The main ethnic groups in Pakistan are the Punjabis, the Sindhis, the Baluch and the Pathans, plus a number of small tribal groups in the more remote northern areas. The *muhajirs*, or refugees from India at the time of independence, who for the most part speak Urdu as their mother tongue, can also be regarded as an ethnic group. A relatively new element in the population is the Afghan refugees, mainly concentrated along the tribal areas.

Currency

Pakistan's currency is the rupee, divided into 100 paisa. The average exchange rate of the rupee in 1994: Rs46.56 =£1; Rs30.51 = US$1. The exchange rate on November 8, 1994 was Rs49.5545 to £1; Rs30.6194 to $1.

Government deregulation now allows freedom of currency exchange. Visitors are edvised that some false currency notes are in circulation.

Visa requirements

A valid passport is required by all visitors. All nationals of India, Afghanistan, South Africa, Bangladesh, Iran, plus any country not recognised by Pakistan must have a visa. Israeli passport holders are not permitted entry.

Tourists from most other countries need a visa only if they wish to stay for more than 30 days. Nationals of a few countries may stay up to 90 days without e visa. Check with tha Pakistan Embassy or consulate in your own country.

Visas are not issued at entry points. In some circumstances visas can be extended for short periods by applying to Passport Offices in Islamabad, Karachi, Lahore, Peshawar or Quetta. However both the rules and the practice are subject to change without warning.

Visitors are restricted from certain areas, such as parts of NWFP, Baluchistan and the Northern Tribal Agencies, are not open to tourists without special permission.

The cost of visas is variable according to the nationality of the applicant and the type of visa applied for.

Arrangements for visa application and collection vary from office to office, and should be confirmed by phone with the relevant office.

Tourists from countries which do not have Pakistani representation may apply to resident British representatives.

Climate

Sub-tropical, cold in the highlands. The hottest month in Karachi is June, with temperatures ranging from 28-34 degrees celsius; the coldest month, January, 13-25 degrees celsius; driest month, October.

Business and banking hours

Government and business: (Sunday-Thursday) generally 0900-1400; banking, (Sunday-Thursday) 0900-1300; shops: (Saturday-Thursday), 0800/0900-1800/1900.

Public holidays

Certain public holidays in 1995 are dependant on the Islamic lunar calendar and may vary by one or two days from the dates given here (see asterisk). They include: 1 February* (Ramadan begins), 3 March (end of Ramadan), 23 March (Pakistan Day), 14 April (Good Friday), 17 April (Easter Monday), 1 May (Labour Day), 10 May*, 31 May*, 9 June*, 9 August*, 14 August (Independence Day), 6 September, 11 September, 9 November, 25 December, 26 December (Boxing Day). Some holidays are optional for Christians only.

Time Zone

Greenwich mean time, plus five hours.

Mr Farooq Ahmed Khan Leghari, former minister of finance, water and power, was elected president in November last year

FINANCIAL TIMES SURVEY

President Clinton's cleaner atmosphere campaign faces a moment of truth: PAGE 2

ENERGY EFFICIENCY

Does a virtuous drive to the bottle bank burn more fuel than it saves? PAGE 4

Monday November 28 1994

Anxiety over global warming is now the strongest impetus for saving energy. But fear of oil scarcities is a more durable argument, says **David Lascelles**

Better technologies reap big rewards

Not long ago, the impetus for energy efficiency came from traditional concerns: the high cost of energy, the need to conserve finite resources, and a desire by countries to reduce their dependence on imports for national security reasons.

Today, all those concerns have weakened. Despite a recent blip, the price of oil is at its lowest point in real terms since the early 1970s. World reserves of oil and gas have been boosted by large finds in places as far apart as Colombia, Vietnam and the Shetland Isles. The lowering of East-West tensions and the decline in Opec's power have reduced worries about import reliance.

But in their place, there is a new worry. As Mr David Nemtzow of America's Alliance to Save Energy puts it: "The politics have changed. Now, it is overwhelmingly driven by the environment."

Specifically, the worry is over global warming, and the threat to the climate posed by growing concentrations of carbon dioxide in the atmosphere. More than 100 countries are signatories to the 1992 Rio convention which requires countries to try and bring CO_2 emissions back to 1990 levels by the year 2000. But while this has given a fresh impetus to energy saving, it has yet to prove particularly strong.

The global improvement in energy efficiency which occurred in the 1970s and 1980s has flattened out in the last few years. This should improve this year because the world economic recovery will bring on stream efficient new plant, and people will buy new cars and appliances which need less energy. But on the whole, progress is disappointing.

The threat of global warming is not as potent as the fear of oil running out. Individuals who care deeply about the environment have been slow to insulate their homes or drive smaller cars. And businesses – apart from those where energy is a major cost – tend to treat energy saving as secondary.

At a recent conference in India, Mr Michael Jefferson, deputy secretary general of the World Energy Council (WEC), said: "There is little evidence that either energy consumers or most energy policy-makers recognise the importance of raising energy efficiency and conserving energy in terms of effective action, or that this situation will change in the near future." The fact is that governments have been reluctant to pass draconian laws to enforce greater energy efficiency. Most of them have preferred to set up "partnerships" with energy users in which the main role is played by publicity, persuasion and a few tightly focused – and tightly financed – projects to promote energy saving technologies and information.

"We want to avoid excessive command and control," says Mrs Christine Ervin, the US assistant secretary of state for energy efficiency who oversees a broad range of initiatives designed to encourage electric utilities, appliance manufacturers, car makers and businesses to produce more with less.

The low cost of energy in most countries is one of the greatest stumbling blocks to the elimination of waste. Mr Andrew Brown of the energy efficiency division of the EU Commission in Brussels, (which has several information and technology programmes of its own) says: "The challenge we face is detaching energy efficiency from prices," and that will probably have to be done by persuading people that environmental damage is a "cost" which everyone will ultimately have to bear.

But until that detachment comes about, the raising of energy prices through taxation is still seen as one way of driving home the message. Several European countries including the UK have recently introduced forms of energy tax. But even here, achievements have been mixed.

President Clinton failed to gain acceptance for his BTU tax last year, and the EU's proposed carbon tax has yet to leave the drawing board.

But there are other methods. One is technology. The energy efficiency industry has made great strides in producing new methods and products: refrigerators which consume 30 per cent less electricity, boilers with high energy conversion capabilities, sophisticated thermostats and switches, demand side controls.

The modernisation of the highly inefficient economies of East Europe, and construction of new power plants in China should also help the global picture.

Alongside these developments, there is the rapid growth of consultancies and energy contract managers who make a living by cutting other people's energy costs.

Mr Robert Skinner, director of the office of policy analysis at the International Energy Agency in Paris, believes that much of the change will be driven by technology.

"Traditional policies are almost irrelevant to what's going on," he says. "Technology is moving at such a pace that governments which take the old-style approach will get left behind."

However, one weakness of technology is that much of it still requires subsidy: for example "renewable" technologies such as wind power or biomass combustion, or some of the more exotic gadgetry. Others, such as combined heat and power where the heat from electricity generation is used for industrial or residential purposes, encounter institutional obstacles, even though their efficiency is high.

Mr Ton van der Does, chairman of Cogen Europe, the CHP trade group, believes that Europe's tradition of large, state-owned power stations stands in the way of CHP schemes which, by their nature, are local and entrepreneurial. "The industry is still shaped by the old structures," he says. "The trend towards energy efficiency is not going as fast as everyone would like. But there is a change of mentality, specially with regard to co-generation, and that is important."

A further element in the debate is competition. In many countries, the absence of free pricing of energy or of free access for new suppliers is a major obstacle to efficiency.

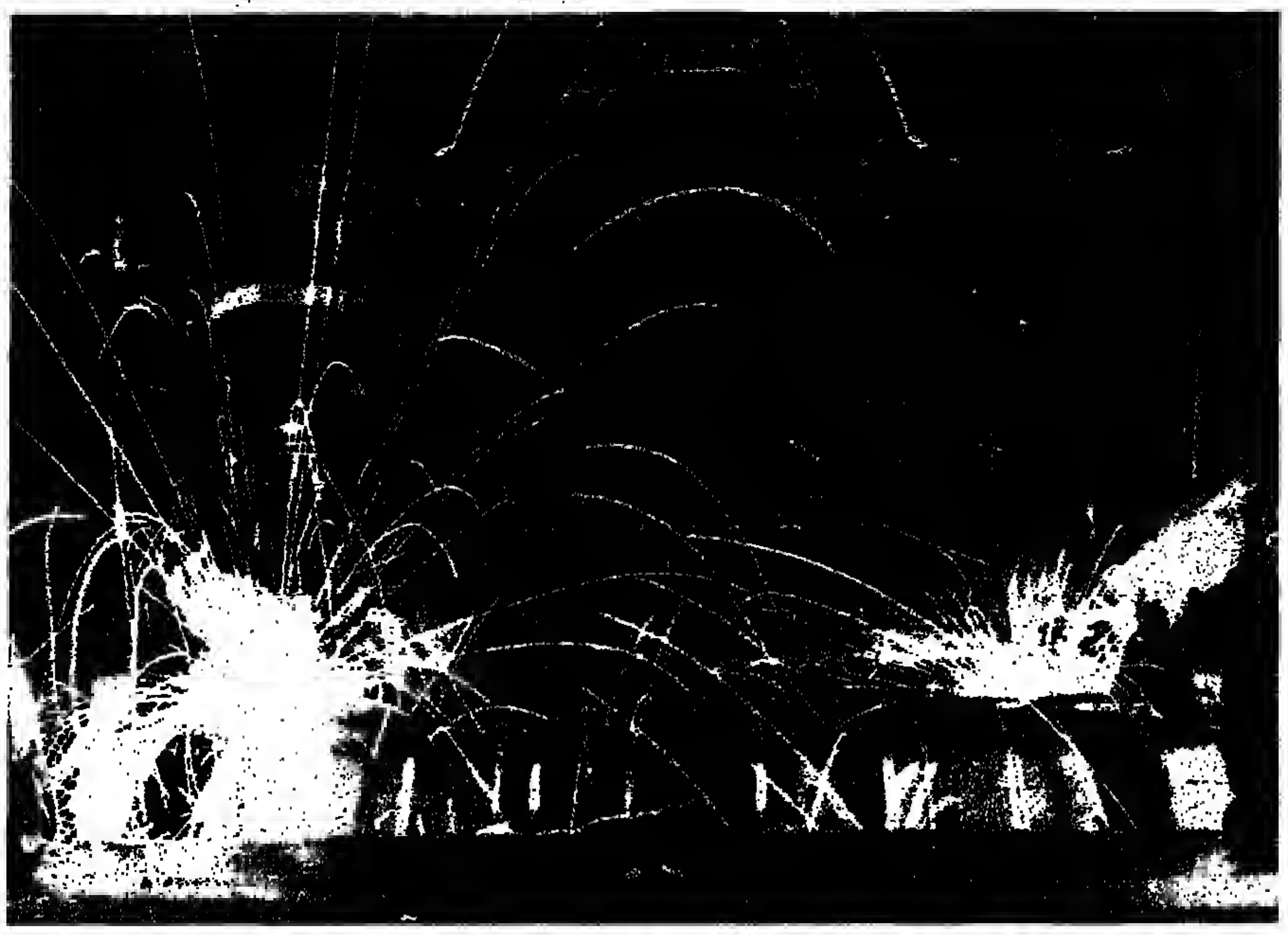
Although many countries are now following the UK in privatising their electricity industries, this process has a long way to go. But, as the UK has discovered, it can be a double-edged sword: greater competition also means cheaper energy, and that works against greater energy efficiency.

In the medium term, the drive for energy efficiency will be dictated – barring an unexpected leap in energy prices – by the strength of countries' commitment to the Rio convention. It is still too early to say whether the CO_2 reduction targets will be met.

But over the coming months, signatories will be preparing for the March 1995 conference in Berlin where they will review progress and take the first steps towards setting further targets for beyond 2000.

Mr Michael Grubb, who heads the energy and environmental programme of London's Royal Institute of International Affairs, says that "much of the steam has gone out of it" because the public and the media have turned their attention elsewhere.

This makes him doubtful that solid progress will be achieved in Berlin. On the other hand, "no country can backtrack now", he says. Moreover, the latest scientific evidence tends to reinforce the view that the global warming threat is real, so the pressure for action will remain.



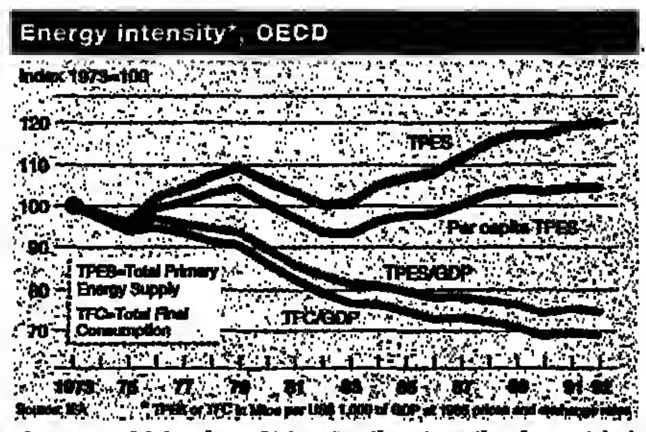
Ford assembly workers at Halewood, Merseyside, whose energy load is handled by BP Energy, a leading UK contract energy management group

Editorial production: *Maurice Samuelson*

Design: *Robin Coles*

Graphics: *Robert Hutchison*

Energy intensity*, OECD



■ POLICY TENSIONS IN BRUSSELS

EU changes tack

The European Commission is working hard to improve energy efficiency by EU-wide regulation. But the results fall far short of its ambitions.

Economic pressures, rock-bottom fuel prices and political wrangling between EU governments have thwarted Brussels on the two main planks of its energy efficiency campaign – the ill-fated carbon tax and a clutch of energy-saving programmes. Both initiatives have effectively stalled.

Driving the EU's campaign is a commitment made in the mid-1980s to raise energy savings by 20 per cent between 1986 and 1995. Current estimates by the Commission energy directorate are that saving will be only 11-12 per cent.

Brussels officials partly blame the historically low energy prices.

But confusion over whether the EU's main priorities should be economic or environmental has also frustrated the Commission.

A second policy commitment, motivated purely by environmental concerns, is the objective agreed at the 1992 Rio Earth summit to stabilise carbon dioxide emissions at their 1990 levels by the year 2000. That target is also likely to be missed, although estimates vary over the shortfall. Environment commissioner Yannis Paleokrassas has predicted a shortfall of 15 per cent by the end of the century.

These two objectives have co-existed uneasily, and much of the blame for the failure of EU energy-saving policy is attributed to the confusion between them.

"The carbon tax has actually been the bane of energy efficiency policy because it has distracted everyone's attention from the other measures," says Mr Andrew Warren, director of the London-based Association for the Conservation of Energy.

But those other measures – led by the Commission's Ecu 35m five-year Save (Specific Actions for Vigorous Energy Efficiency) – programme have also fallen victim to the post-Maastricht Treaty campaign for subsidiarity.

The Commission's energy directorate, DG17, is therefore drawing up a second Save scheme which will be mainly educational, with none of the legally-binding directives envisaged in the first one.

The new low-key approach is in stark contrast to Brussels' previous ambitions, which reached a high peak in 1992 when Carlo Ripa di Meana, then environment commissioner, proposed the controversial energy tax. Now, although the Commission continues to promote it, it is generally agreed that the carbon tax is dead.

According to the original Brussels proposal the tax would have levied \$10 – later watered down to \$3 – on the equivalent of a barrel of oil.

Such fiscal interference by the EU has been flatly rejected by the UK, in defiance of compromise plans tabled by a succession of governments in the EU's rotating six-month presidency. The EU's southern states also posed problems, arguing the tax would discriminate against their less developed economies.

The attempt to break the deadlock this year, when the Greek presidency tried to tempt the sceptical southern EU states with compensatory "burden-sharing" arrangements, did not even address the UK's opposition.

The Commission, supported by the current German presidency, is now pushing this debate in a far less controversial direction. The latest suggestions, yet to translate into any formal proposal, are to attack CO_2 emissions through the EU's regime for excise duties and VAT on fuel.

The UK, although still deeply opposed to relax its grip over fiscal policy, has to some extent led the way along this path by imposing VAT on domestic electricity – a move estimated to achieve 25 per cent of Britain's targeted reduction in carbon emissions.

The EU excise and VAT system, established at the start of 1993, is due for review by the end of the year but is likely to be delayed into the next Commission, which takes office in January.

The debate is still likely to be dogged by arguments over sovereignty, however.

Meanwhile, Brussels is adapting its other energy-saving programmes to the new political climate. Gone are its ambitions to set EU-wide fuel-conservation standards on building construction and management – a key failure of the original Save programme which led to the watering down of six directives.

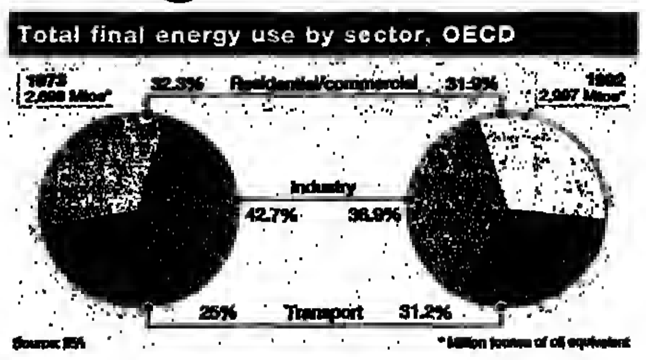
Instead the Commission plans to limit legislation to areas covered by existing EU internal market rules – in other words in traded goods, such as fridges and boilers, where Save has already had some success. Gone also is the idea of overruling national laws with new directives from Brussels. "From now on we are following the added-value concept – what can Save add to the national programmes," says the Commission.

The new approach, expected to be spelled out by the German presidency at a Council of Environment ministers in Brussels next month, is also geared more closely to market realities. For example, the new proposed directive on third party financing would create incentives for banks to fund energy saving at public institutions such as hospitals.

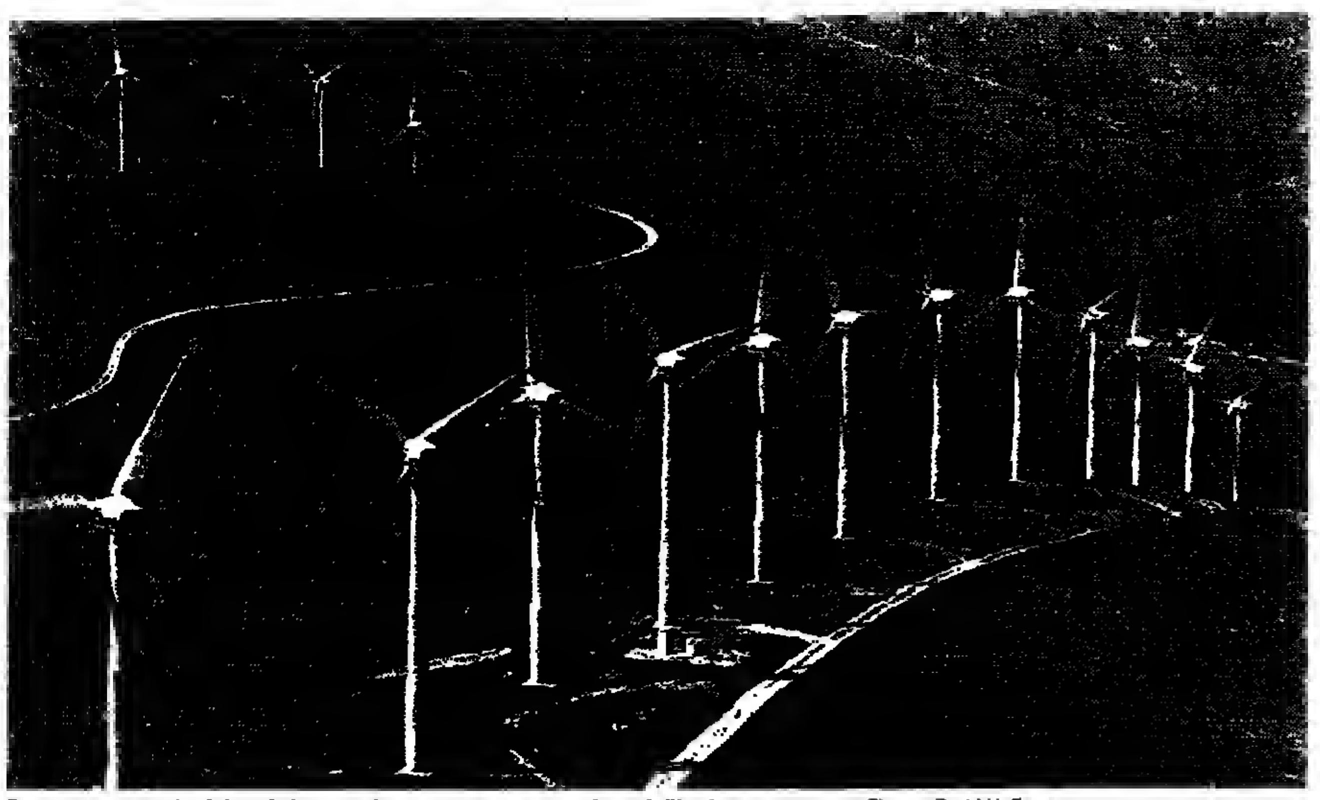
Increasingly funds are being directed at projects for eastern Europe, both from Save and from the EU's £700m five-year Thermie programme, which aims to promote new energy-saving technologies.

Adrian Strain

Total final energy use by sector, OECD



ENERGY EFFICIENCY 2



Revolutionary or quixotic? – wind-powered generators at Altamont Pass, California Picture: David Hoffman

Bronwen Maddox describes the fate of a bold Whitehall initiative

The bird that would not fly

Energy efficiency can be a remarkably slippery policy to promote. That is the experience of the UK government which has seen the Energy Saving Trust, an election manifesto pledge and one of the fondest creations of its environmental policy, fail to get off the ground.

According to Mr Andrew Warren, director of the Association for the Conservation of Energy, the trust's progress is "a severe disappointment – it originally represents one of the soundest programmes in the UK for delivering higher levels of energy efficiency".

The trust is intended to help the gas and electricity utilities identify projects which will help their customers use less energy. Ministers planned that the money to fund the projects would be passed on to all customers of the utilities through their bills.

In January, Mr John Major, the prime minister, made clear in a high profile speech to spell out the UK's environmental strategy that he was giving the trust a central role in the UK's plans for meeting the Rio targets on global warming. Those targets specify that the UK must draw up plans to bring emissions of carbon dioxide, which is implicated in global warming, back to 1990 levels in the year 2000. According to estimates compiled by the Department of Trade and Industry, that means that the UK needs to cut around 10mtC (million tonnes of carbon) from the projected 170mtC in the year 2000.

The government hopes that most of those savings will be generated by measures – themselves controversial – to raise the price of heating fuel and petrol.

However, ministers have put a quarter of the burden – 2.5mtC, the biggest single element – of the required cuts on the trust's shoulders. They have also estimated that the trust will need to identify about £400m of projects a year by the end of the decade in order to reach that target.

It needs to raise nearly £2bn by the end of the decade to meet government targets, according to its business plan, published in April.

However, so far the trust is not on course to reach anywhere approaching that figure. According to its chief executive, Mr Eoin Lees, it has looked at 55 projects, which would cost £14m to implement. Of these, 25 have been approved by Offer, the electricity regulator. Last year, it spent £4m on pilot projects.

> The Energy Saving Trust, one of the fondest creations of John Major's government, is nowhere near to meeting its targets

Mr Lees says: "I think we are on course to spend between £10m and £12m in the year to March 1995." The projects cover more efficient light bulbs, and all night lighting for security purposes in communal housing, which has proved popular with local authorities and housing associations.

However, although he points out that this spending figure is in line with the spending the trust had planned to make this year, the obstacles in the way of further progress, up towards the £400m level, are considerable.

According to Mr Warren, the projects approved so far "are tiddlers. This is no more than money which was agreed 18 months ago".

Those hurdles lie in the position of the gas and electricity regulators. They are uncomfortable about allowing the costs of such projects to be passed on to all customers, even those who have not benefited from the schemes. On the electricity side, Offer has capped the amount which the utilities can spend on such projects to £22m a year until March 1998, when the industry pricing will be reviewed.

The position of Ofgas, the gas regulator, is even more trenchant. Ms Clare Spottiswoode, director-general of Ofgas, made clear her uneasiness to such "cost-pass-through" at repeated hearings before parliamentary select committees. She argued that regulators should not be used to impose charges which were essentially taxes. Moreover, she made clear, such a tax would be regressive, hitting the poorer families hardest.

Ministers have also shown uneasiness in private about these implications. The government's separate proposal to levy value added tax on heating fuel started a still-simmering political row. Ministers are concerned that an additional hike in fuel bills would stir the controversy again.

One casualty of the conflict with Ms Spottiswoode is the progress of *Homes 2000*, a proposed scheme to subsidise home improvements such as insulation for lofts and external walls, and energy-efficient lights and boilers. The project, which would pay up to half of the costs of these projects, would need £8m next year and £120m by 2000, the trust has indicated.

There have been other concerns with the trust. It directs almost all its schemes at owner-occupiers, but, as the Institute for Fiscal Studies has pointed out, owners of accommodation for private rental make the least investment in energy efficiency, and their tenants could greatly benefit from such schemes.

For the moment, there is an uneasy peace. Parliamentary committees and Ofgas have concluded that in deciding whether to approve such projects, Ms Spottiswoode must balance the regulator's responsibilities to protect the customer from rising prices with those to promote energy efficiency.

The trust argues that the extra sums on fuel bills need not prove controversial. Although estimates suggest that households which do not benefit from the schemes could see annual fuel bills rise by nearly 2 per cent on top of inflation by 1998, the trust says that most projects will pay for themselves through energy savings within five years.

But while in theory this allows some projects to progress, the energy industry and some within the trust feel that in practice few significant ones are likely to progress.

According to Mr Lees, "the only way forward now is through new legislation. The government has to decide how it wants energy efficiency to be taken forward in the competitive market."

For that reason, he takes considerable comfort from the fact that gas regulation was included in the Queen's Speech at the opening of parliament this month. This offers the chance that regulators could be directed explicitly to allow such cost-pass through.

Until then, however, the trust is effectively stalled, and its executives must devote much of their time to pleading behind the scenes with politicians to clearing a way forward. According to Mr Warren, "of course the trust can be saved if there is political will". It is far from clear, however, that the political will exists.

US has ambitious policies. **Frank McGurty** asks if they will work

Big carrot, little stick

Environmentalists contend that President Clinton's plan to respond to the threat of global warming contains too much carrot and not enough stick. Conservatives say it is an overwrought response to non-existent crisis.

But most agree on at least one point – the programme, unveiled amid great fanfare a year ago, is comprehensive. It sets forth dozens of separate initiatives aimed at controlling emissions of carbon dioxide, methane and other gases, which some scientists believe could drastically alter climate conditions.

The initial goal is to roll back over the next six years the amount of so-called "greenhouse" gases discharged into the atmosphere to 1990 levels. Without any action, emission levels would increase 7 per cent by the turn of the century, according to the administration's projections.

From its inception, it was virtually certain "the climate change action plan", as it is known, would run up against at least some obstacles. Indeed, in committing the US for the first time to a specific goal and timetable on reducing greenhouse emissions, the president was launching a plan as sweeping and potentially contentious as his ill-starred scheme to reform the US healthcare system.

A year later, the environmental plan is alive and well, in sharp contrast to healthcare reform, which is currently trapped in political limbo after a fierce partisan battle in Congress. During a legislative session when many of the president's proposals were thwarted, the package survived largely intact, with 40 out of 47 of its original proposals winning approval.

"Overall, compared to where we were a year ago – when it was simply a proposal – the plan has been a very substantial success in terms of beginning to address these issues," says Mr Wesley Warren, associate director of the White House Office on Environmental Policy, which is overseeing a plan that involves six separate federal agencies.

Keeping the programme afloat may indeed qualify as a success for the president, but the start has not been entirely smooth. With both houses of Congress to be controlled by the opposition Republicans, the next steps in implementing the plan are sure to prove more difficult. Already for fiscal 1995, the Democratic-controlled Congress slashed the proposed appropriations for the plan. There is also evidence to suggest the administration has underestimated the magnitude of the problem. Its response, if fully funded, could prove inadequate to the initial goal.

It is much too early to judge whether the specific initiatives are living up to their advance billing. Many of them have been up and running for only a month. Nevertheless, even critics of some aspects of the programme credit the administration with getting most of its proposals off the ground.

"In general, the plan is moving in the right direction," says Mr Daniel Lashof, a senior scientist at the Natural Resources Defense Council, an environmental lobbying group.

> **Keeping the Clinton programme alive was a success, but progress was not entirely smooth**

The package embraces a potpourri of programmes, many of them aimed at striking partnerships between the private and public sectors. The initiatives range from adjustments in tax policy on employer-paid parking privileges to measures to encourage better management of forests, which combat global warming by absorbing carbon after it has been released into the atmosphere.

But the cornerstone of the plan is a multi-faceted effort to reduce emissions of greenhouse gases at their source. Energy efficiency is considered crucial because fossil fuel consumption by homes, offices and factories is responsible for more than 85 per cent of US greenhouse emissions.

Many of the plan's initiatives simply expand on existing projects. The Environmental Protection Agency's Green Lights programme, launched three years ago, offers technical support to businesses which are considering upgrading their lighting systems. This year 400 new organisations have signed up, bringing the total to about 1,600.

With each participant realising an average 45 per cent decline in energy use, the EPA has stepped up its recruitment drive by targeting universities, churches and other non-profit groups. "Green Lights has a solid track record which demonstrates that these types of programmes work," says Mr Lashof.

Other projects would put fresh ideas into play. Among the most promising is the Department of Energy's initiative to develop new energy-efficiency standards for 11 residential appliances.

But in at least one case – hot water heaters – the electric industry is vigorously opposing the adoption of new rules, which would encourage the use of a more efficient type of gas-fired heaters.

"That calls into question whether the industry is willing to co-operate beyond the level of lip service," says Mr Lashof.

The issue is particularly germane because the administration has chosen to highlight its relationship with the electric industry as evidence that its non-confrontational strategy is working well.

The response to the DOE's Climate Challenge is a special source of pride. More than 800 electric utilities, which represent 80 per cent of US generating capacity, have agreed to undertake voluntary measures to reduce their greenhouse emissions, employing a flexible array of options.

The White House projects $60bn in private investment in energy-savings technology by the end of the decade, against a commitment of just $1.9bn in federal funds, some of which is to be redirected from other areas.

But public spending is already falling short of the original target. For fiscal 1995, the plan was granted budget authority of only $232m, much less than the $344m sought by the president. The DOE, the most important agency involved in the programme, was given a little more than half its $208m request.

Last May, Ms Hazel O'Leary, the US energy secretary, told a Senate committee that deep cuts in funding "would make the president's commitment virtually impossible to meet".

The White House declined to comment specifically on how spending reductions might affect the plan, but Mr Warren said the administration would press for extra funding in subsequent years to make up for the shortfall in fiscal 1995.

However, with the Republicans likely to seek cuts in federal income taxes, and perhaps an amendment to the US constitution to require balanced federal budgets, funds are most likely to be even more tight as the emissions deadline nears. Environmentalists such as Mr Lashof also question whether the administration's plan has underestimated the likely rate at which greenhouse emissions will increase in the coming years, assuming no action is taken.

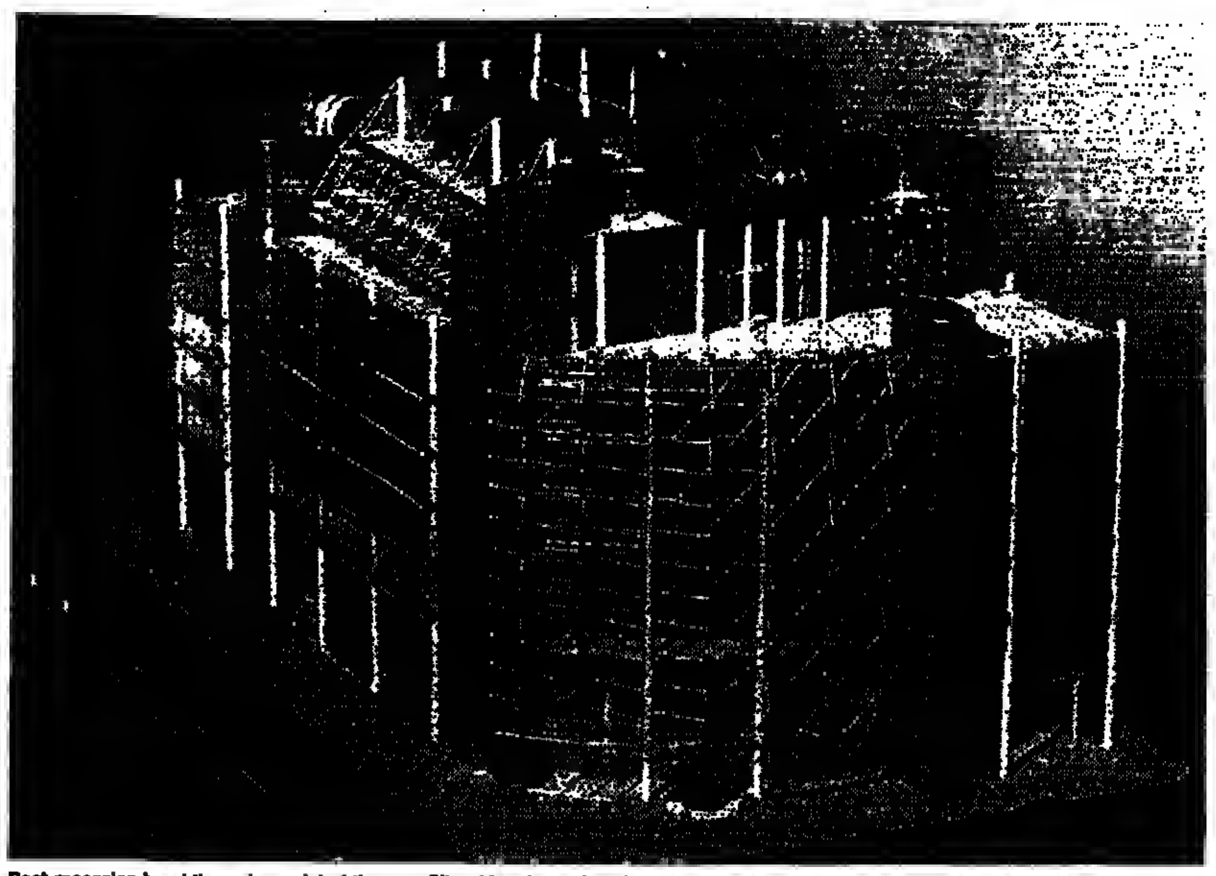
Since the plan was unveiled a year ago, both private and government economists have lifted their estimates of 1994 gross domestic product to more than 3 per cent, from early forecasts of less than 2.5 per cent.

At the same time, the price of crude oil has fluctuated without showing any big net increase; the administration assumed higher prices in its emission projections.

If the economy continues to outperform the forecasts and oil prices stay low, the natural demand for fossil fuels would surely accelerate, making the challenge of reducing emissions to 1990 levels even more daunting than a year ago.

Such questions are to be addressed squarely in about a year. The White House has promised to re-evaluate and, if necessary, modify the climate programme next autumn to keep the emission reductions on track.

"We are simply not going to look at this on a month-to-month basis," Mr Warren says.



Post-recession breakthrough: model of the new City of London office block being constructed by the London and Manchester Group

David Lawson charts the rise of the state of the art office block

Tempting the tenants

The disappearance of belching smokestacks is generally seen as a sign of how far we have progressed towards a more efficient, civilised society. Few would accept living and working in such conditions today.

But most of us still do. Gleaming modern factories, warehouses – and even homes and office blocks – pour out a noxious wastes. We just cannot see them.

Buildings emit twice the amount of carbon dioxide as vehicle exhausts, making a major contribution to fears about global warming. This has led to a major rethink by the British government in the light of the 1992 Rio de Janeiro agreement to cut $C0_2$ emissions over the next decade.

Housing, for instance, which consumes half the UK's gas and a third of its electricity, has been uprated under new building regulations. Ministers claim this will increase energy efficiency by 20 per cent, with a corresponding reduction in emissions from their chimneys and power station stacks.

Factories face a similar tough regime, but the ubiquitous office block has proved more of a problem. Air-conditioning appears to be a minor irritant, contribnting less than 1 per cent of the UK's carbon dioxide output. Yet it has become a symboi of energy excess in the commercial sector.

Designed to cope with the extra heat generation of electronic equipment, developers insist it is necessary in town centres, where windows must remain sealed against dirt and noise. But such energy-hungry techniques became almost a standard fixture during the property boom no matter where buildings grew.

Building regulations aimed at restricting this growth were shelved earlier this year – but only for further investigation into workable rules. Progress is more likely to come from the bottom up, however. Almost 90 per cent of occupiers in a study by property consultants Richard Ellis said they did not want air-conditioning.

A few years ago such complaints might have been ignored. Tenants had to take what they could get when space was in short supply. Now the boot is on the other foot. In a market awash with empty buildings, landlords are desperately trying to anticipate what will attract occupiers.

Air-conditioning will not disappear. Fund managers who have a stranglehold on development of new buildings insist that it is essential for modern working conditions. And Mike Warner, a senior partner with Richard Ellis, admits that occupier complaints probably stem from poor maintenance and design.

But air-conditioning is only part of a growing demand among occupiers for cheaper accommodation. These complex networks of ducts and fans add not just to building costs – which push up rents – but can also add 30 per cent to service charges, according to another property consultant, Jones Laing Wootton. The pendulum is now swinging towards buildings which more closely match occupiers' needs. Heating and ventilation should be both more user-friendly and energy-efficient in future.

But with so little development taking place, it is hard to find examples of this change in approach. One is a striking glass and steel block going up at Finsbury Pavement in the City of London. The 125,000 sq ft of offices over a Marks & Spencer store is being watched *closely by the property industry, as this* is the first important speculative development in the City since the crash.

Developer London & Manchester called in two pioneers in energy-saving design, engineer Ove Arup and architect Sheppard Robson. The building makes maximum use of natural light – one of the key demands by occupiers in the Richard Ellis survey – controlling solar gain through a system of external louvres which automatically adjust to internal temperatures.

More significantly, however, this has been balanced by a "low-tech" method of cooling known as chilled ceilings, a technology widely used on the Continent but ignored in favour of energy-hungry variable air volume (VAV) systems in the UK.

Other developments are also on the drawing board which show how developers are adjusting to tenant damand. Sheppard Robson is working up plans for a 140,000 sq ft block in Croydon for Norwich Union with a different cooling system which *could cut normal energy costs by 30 per* cent. The same partnership is also considering chilled ceilings for an office block in central Leeds.

Another investor, the Prudential, may test these waters with a 250,000 sq ft development in Reading being prepared by Tim Battle, a veteran campaigner for energy-saving with engineers Rybka Smith Ginsler and Battle.

The whip-hand lies with occupiers, however. Most developers will not start building until they snare a tenant attracted by such low-energy offers. London & Manchester has economics on its side, as it pocketed £75m for the City site in the boom and then reacquired it for £17.5m in 1992.

Even if tenants swarm in, however, more efficient new development will hardly dent tha total energy bill of commercial buildings as a whole. More significant is the constant upgrading by a host of specialists. AHS Emstar, for instance, claims it can reduce energy costs by up to 30 per cent by anything from replacement of heating systems to changing the mix of fuels used.

Emstar cut the energy bill for Hoover in South Wales by £750,000 a year, while British Gas saved Inco Alloys in Hereford half its costs by designing new equipment. Groups such as NatWest and Bass have ordered energy audits on all their property, says Ken Ordish of ESS Projects. One of his biggest clients is tha bealth service, as new trusts work their way through hospitals which have wasted money on poor heating systems for decades.

This kind of energy-saving is likely to accelerate over the next decade. Occupiers who got into the habit of examining costs more closely during the slump are now anticipating heavier fual taxes because of worldwide moves against global warming. This is proving a fertile area for energy consultants, particularly with the fierce competition between gas and electricity suppliers.

■ Profile: Energy Systems Trade Association

Wheel turns full circle for a man from Harwell

The international energy efficiency industry was born 21 years ago when the armies of Egypt and Syria launched their October offensive against the Israelis and the Arab oil producing countries dramatically quadrupled the price of oil to tba western world.

The shock sent the industrialised world into beadlong flight from oil to other fuels and prompted energy conservation efforts, such as the *Save It campaign in Britain,* more intensive than anything since the Second World War.

Since then, apart from the the npheaval caused by the Iran revolntion of 1979, oil prices have generally drifted downwards to become lower in real terms than even before the October 1973 war.

Navertheless, energy efficiency still commands lip-service from politicians, industrlallsts and property developers, not only for economic and security reasons but because of the perceived link between carbon fuels and the environment.

The preoccnpation witb energy efficiency is reflected in the durability of many of the organisations which came into being during the energy crises whicb gripped the world throughout the 1970s.

In Britain, these include the Energy Systems Trade Association (Esta), an umbrella body originally formed to serve manufacturers of waste beat recovery systems but now representing a diverse range of service and prodnct suppliers with a growing emphasis on electronic controls.

Esta was founded in 1982 by Dr Glenn Brookes, then a 32 year-old scientist working on energy efficiency projects at the Atomic Energy Authority'a energy technology support unit (Etsu) at Harwell.

While selecting promising new efficiency methods for government-sponsored demonstration, Dr Brookes had found that there was no umbrella body to represent the waste heat recovery industry. He resigned from Harwell, set up Esta and has never looked back.

The energy efficiency industry, he says "has come of age". It no longer depends for its existence on the armoury of government *grants created in the wake of* the world oil crises. It has suffered many casualties but a hard core bas soldiered through and advances with its own momentum.

Twenty one years after the 1973 Middle East war, the energy saving equipment and services industries have come of age

His own association now represents more tban 80 members, with an estimated turnover of more than £1bn a year, and comprises six specialist branches:

- 14 independent energy consnltants, with a £30m turnover and accounting for abont 60 per cent of their market;
- 14 contract energy management gronps; turnover about £200m; covers about 85 per cent of its market;
- 13 building controls suppliers; turnover £250m; represent 85 per cent of their sector;
- controls systems specialists: 13 members; turnover £30m; abont 60 per cent of this sector;
- metering and monitoring gronp: 12 members; £30m energy efficiency turnover; represents 90 per cent of this sector;
- non-specialists (from heat recovery, lighting and boilers, to discrete controls and wnter management): total turnover for all membera exceeding £500m, employing around 10,000 people and responsible for savings of around £250m a year.

In Britain, the building controls market has moved with property valnes. After peaking in 1991 at £344m, building controls sales fell to £278m in 1992, but rose again last year to £293m and continues to grow at a few per centage points a year.

Over the past four years, says Dr Brookes, there has been a 75 per cent increase in spending on servicing and *maintenance of energy efficiency systems.*

The contract energy management gronp, which incindas BP Energy, AHS-Emstar and subsidiaries of regional electricity companies, operates clients' heating systems more efficiently than clients feel able to do themselves.

Their activities have grown by about 21 per cent since 1991, and their workforce has grown at a similar rata to reach a present level of about 2,000. They also cashed in on a 13 per cent growth in public sector contracts from 1991 to 1992, but this has since levelled out.

Eata's latest lnitiative, lanncbed a year ago, is a scheme which independently measures an organisation'a achievements in energy efficiency nnder nationally applied rules.

Meanwhile, the wbeel has turned full circle. Fourteen years after Dr Brookes took the plunge into the private sector, the organisation from wbicb be jumped is set to take the same path. In the Queen's Speech, the government announced its intention to privatlse the Atomic Energy Authority, including its energy technology support unit. Would Dr Brookes *be* making a bid for it? "Definitely not", be said.

Maurice Samuelson

ENERGY EFFICIENCY 4

Recycling economics are being challenged, says **Bronwen Maddox**

Bottle bank dilemmas

When people think of the contributions they might make towards saving energy, they often turn to recycling, as well as more direct measures such as insulating lofts and turning off lights when they leave the room.

Young children frequently lecture their parents on the need to take bottles to the bottle bank, such is the enthusiasm with which schools have embraced recycling.

Yet scientists and economists are increasingly questioning whether recycling household material does have an environmental benefit, and if it does, whether that benefit justifies spending the considerable sums which modern recycling systems can demand.

That equivocation, it should be said at the start, does not on the whole apply to recycling of industrial materials. Many companies have been able both to cut down their use of raw materials through recycling and to cut costs.

A prime example is the use of water: the Water Services Association, which represents the 10 largest water and sewage companies in England and Wales, says that many industrial companies have turned to recycling discharged water since charges for abstracting water and for discharging waste have risen.

However, the debate about the virtues of recycling domestic waste has intensified in the past year since the government began to explore the adoption of mandatory recycling quotas for packaging. Consumer goods manufacturers and big retailers could now face a levy to fund the cost of recovering and recycling waste packaging, which has been put at up to £100m a year.

In July last year, Mr John Gummer, the environment secretary, told manufacturers and retailers to devise a voluntary system to increase the volume of packaging waste recovered or recycled to between 50 per cent and 75 per cent, in line with EU targets.

But industrialists have criticised the targets as potentially meaningless, given the difficulty in measuring volumes of waste, and differences in the definition of waste between different types of packaging.

There have also been concerns about the inflationary effect: some industry estimates put the extra cost of a shopping basket at 1p for every £10.

None of those estimates is yet firm, nor has the distribution of those additional costs been agreed. Both industrialists and ministers have an eye on the catastrophe of German attempts to introduce mandatory recycling targets, which left unwanted mounds of waste paper trundling along the roads of neighbouring countries in search of a market. But the size of the costs, and the controversy about who should bear them, means that all those embroiled in the debate are taking a harder look at whether the environmental benefits of recycling justify extra costs.

Take glass for example, one of the most difficult cases, despite the popularity of bottle banks. Glass is manufactured by heating silica (essentially sand) and sodium carbonate. It is recycled by remelting broken shards of glass containers. Whether this produces a net saving in energy or not is debatable, particularly taking into account the fuel used in collection of the waste glass.

The Centre for Social and Economic Research on the Global Environment at University College, London, in a report in June for Nuclear Electric, the generator, said that if a household recycled 52 glass bottles a year this could save the emission of 6.2kg of carbon a year (carbon dioxide is one of the gases implicated in global warming).

But it pointed out that these savings would quickly be eroded if people drove to the bottle bank.

Moreover, much recycled glass is coloured brown or green from beer or wine bottles, but the demand from manufacturers is for clear glass, for use in food containers.

CSERGE comments that "recycling, though one of the most well-known energy saving measures, has only a small impact on carbon dioxide emissions. Installing low energy lighting in the home, for example, is over 200 times more effective than recycling."

There is least debate over the attractions of recycling aluminium cans, the

One form of recycling whose advantages are not questioned: used aluminium cans being re-melted by Alcan, in Warrington

most valuable category within household rubbish. According to industry estimates, recycling can save 95 per cent of the energy used in original manufacture. In the US, manufacturers suggest that the average smelter to make new aluminium uses as much power as a town of 500,000 people. A smelter also costs around 10 times as much as a re-melting plant.

That gives can manufacturers clear incentives to collect used cans. Last year, for example, the US industry is estimated to have paid out about $900m for used cans collected by individuals, schools, churches and scout troops. About two thirds of cans overall are recycled, the industry estimates.

But there is more debate over other categories of waste, such as paper. Although environmentalists argue that newspapers and magazines could incorporate a higher proportion of recycled material, paper makers say that if paper is recycled more than three or four times, the fibres become too short for use in newsprint.

Local councils in the UK which have vigorously pursued recycling of domestic waste point out too that if such schemes become widespread, the UK could find that it has created its own version of the German problem: mounds of expensively-sorted waste for which there is little demand.

Cogeneration industry seeks a boost in Brussels, says **Andrew Baxter**

Combined heat and politics

Energy efficiency and environmental cleanliness wonld make a strong combined argument for any kind of power generation system, hnt few, if any, can score so highly on both counts as combined heat and power.

Unlike most conventional power generating systems, CHP recaptures the waste heat released during combustion and uses it to make steam for hot water or heating – as well as electricity.

This can prodoce total efficiency ratings of np to 90 per cent, compared with 35 per cent thermal efficiency for the average coal fired power station or 56-58 per cent for the latest combined cycle systems. As for emissions, every 1MW of CHP rednces UK carbon emissions by 1,250 tonnes a year.

It might seem odd, therefore, that the popularity of CHP varies so widely across the European Union, where CHP overall accounts for 6 per cent of electricity generated. In Holland and Denmark, the figure is 30 per cent, whereas in France it is only 2 per cent.

In fact, there is a very close link between government policy that promotes CHP – or at least creates favourable conditions for it to flourish – and its success in the market place. Where governments are indifferent or allow uncertainty to develop, CHP finds it harder to prosper.

The UK is a case in point. It is at the low end of the scale compared with the big European users, with only 4 per cent of its electricity coming from CHP. But the UK Government has at least set a target – of 5,000MW of CHP by the end of the century.

Already, the UK has 3,000MW of CHP at work, on more than 700 sites, and until a few months ago, it looked to be coasting comfortably towards achieving the 5,000MW target. Over the past three to four years, 1,000MW of capacity has been added and the country's largest CHP scheme, a 157MW joint venture between Scottish Hydro-Electric and British Nuclear Fuels at Sellafield, Cumbria, came on stream earlier this year.

The problem, however, is that the UK does not have a strategy to implement the target, according to Mr David Green, director of the Combined Heat and Power Association. In the past three or four months, few new schemes have been announced because potential CHP operators feel squeezed between rising gas prices – one of the main fuels for CHP – and regulated electricity prices.

There is a "fundamental uncertainty," he says, over the course of UK energy policy, which makes it difficult to invest in CHP with confidence. As a consequence, Mr Green is now less certain that the 5,000MW target will be reached.

Before the recent lull, the market had been growing steadily, with a strong surge of activity in the hotel industry, and a good showing in the paper and board sector. Relatively unexploited sectors include the chemicals and steel industry – where companies have held back making investments, perhaps because of lack of confidence in their own future survival.

According to a report* in July by Marketing Strategies for Industry, the UK market for industrial CHP generation plant, excluding plants below 100KW, was £97.7m last year, up from £87.2m in 1992 and just £51.1m in 1989.

The biggest segment last year, based on gas turbines with waste heat recovery boilers, accounted for £63.9m of the spending, followed by combined-cycle CHP with £25.5m. Use of both types has grown strongly over the past four years. The remaining £8.3m was spent on systems based around reciprocating engines.

The CHPA believes the UK could have 20,000MW of CHP by 2020, but Mr Green says there will have to be changes in government policy to achieve this. To turn the widespread support for CHP into reality, it wants new and fair prices for the electricity from CHP plant, effective investment by the private and public sectors in community heating, incentives to stimulate investment by companies in CHP, and action to remove what it calls "the distortion and inertia" which limits the wider use of CHP and community heating.

In contrast, CHP has "steamed ahead" in Denmark and the Netherlands because it has been a policy priority, says Mr Michael Brown, the CHPA's assistant director (Europe). The Netherlands, with its more industrialised economy, uses CHP both in industry and in district heating, while Denmark's CHP is much more focused on district heating.

In Italy, the one EU country where electricity supply shortages are an issue, there has been considerable growth in CHP use, almost entirely in the industrial sector. Here, and also in Spain, electricity tariff changes have been an important stimulus.

In Spain, however, a review is now under way after strong growth over the past three to four years, and a number of projects are on hold.

Mr Brown believes the amount of electricity generated by CHP in the EU can rise to 8 or 9 per cent by the end of the decade, helped by the planned entry to the EU of Sweden and Finland. He believes the EU should set an ambitious target for the average percentage figure, much as has happened in the UK.

The CHPA, and the recently-formed organisation Cogen Europe which groups it and six other similar associations in Europe, is hoping it can influence a number of Brussels initiatives in favour of CHP. These include the slow-moving plans for the liberalisation of the electricity and gas markets, and the controversial suggestion for an EU-wide energy tax to reduce carbon dioxide emissions.

The CHP industry is also trying to make headway on the European energy policy green paper now being drawn up by the Commission. An initial document was fairly thin on environmental issues, says Mr Brown. "We would like to see that beefed up."

A further lobbying front involves the EU's Save programme to promote energy efficiency. Save 1, now drawing to a close, was hamstrung by lack of support from member States, says Mr Brown. Save 2 is under discussion, and whatever emerges ought to have legislative teeth, says Mr Brown. Lobbying at national level, meanwhile, continues.

*Power Generation Plant: UK. Marketing Strategies for Industry, Viscount House, River Dee Business Park, Saltney, Chester, CH4 8QY, UK.

Jane Martinson sees ingenuity at work in the UK, US and France

Where there is a will...

When a full-time energy manager was appointed at Leeds General Infirmary in northern England last year he found a number of targets for his efficiency drive.

A year earlier the hospital, which spends an average of £1.65m a year on energy, received a "poor" rating when judged by environment department guidelines on energy efficiency. Marcus Tunaley, recently-appointed energy officer at the infirmary, says: "An environment audit on total energy consumption in one wing was one of the worst I've ever seen."

Faced with a National Health Service commitment to cut energy consumption by 15 per cent over the next five years, the hospital is one of a number managed by NHS trusts to have committed 10 per cent of its annual energy bill to efficiency measures. Some £165,000 will be spent in Leeds over each of the next four years.

The current efficiency measures range from aluminium-clad radiators to updating the outdated building management system. The old system, which controls heating and lighting, was unable to adapt to changing needs. "The old system provided heat to the hospital 24 hours a day," says Tunaley. "We wanted it to work when it was needed."

Most measures have focused on the large Clarendon wing of the hospital built in the early 1970s before the oil crisis encouraged energy savings. "It was quite obvious that this wing, lovely as it is, was built when fuel was cheap," says Tunaley.

A "deep plan" building with many windowless rooms, some 40 per cent of its electricity is used for air conditioning. Frequency inverters and air quality sensors, which enable the conditioning system to respond to natural changes in temperature, will save 80 per cent of the electricity used for the air conditioning alone, says Tunaley. With the new system the conditioning system works hardest at busy times of the day, in the canteen at lunchtime for example.

Other savings have resulted from fitting ionic fuel technology to old boilers (with an energy saving of 8 per cent) and the installation of high-frequency fluorescent tubes (with a possible electricity saving of 30 per cent).

Britain's national health service seeks to cut energy use by 15 per cent in five years

Environmental concerns are one reason for the hospital's efficiency measures but the main reason is to save money. "Efficiency measures represent a good return on your investment," he says. "They are accepted as a good way to save money."

The saving also makes sense in the face of the expected increase in gas prices next year, says Tunaley. He believes that the end of cheap "interruptible" gas to large consumers because of market liberalisation could result in the price of gas going up by 25 per cent. The hospital uses gas to generate electricity in a combined heat and power (CHP) plant.

The deregulation of the energy market in the UK has encouraged some large users to use CHP plants to generate their own power and enhance the security of their energy supply.

The plants can cut the loss of fuel in energy production by using the heat from electricity generation for further energy purposes.

The chemicals manufacturing arm of Zeneca, the bioscience group, is to install two CHP plants to supply 23.5MW for its Huddersfield and Grangemouth sites in the UK.

The new £10.6m plant at Huddersfield, to provide the steam and electricity used in the manufacturing process, aims to save an estimated £2.5m a year in energy costs.

Environmental legislation has encouraged the new energy contract. Two of the plant's boilers, which will be phased out under the new scheme, are over 30 years old and do not include pollution-abatement measures. Bob Thompson, Zeneca spokesman, said: "This equipment needs replacing because of our desire to improve our environmental performance and also because if we don't we will not meet environmental legislation which is coming into force in the next few years."

The new plant would enable the company to keep ahead of controls on carbon dioxide emissions for example. The plant currently burns some 90,000 tonnes of coal a year.

In Europe and the US companies have been keen to encourage energy efficiency to comply with legislation – following government commitments at the Rio earth summit to bring carbon dioxide emissions back to 1990 levels by the year 2000 – and to enhance their public image.

Electricity companies in the US, for example, entered into a voluntary agreement, called the Climate Challenge, with the Department of Energy earlier this year.

The initiative, which seeks to reduce greenhouse gases, was a direct response to a proposed tax on the number of British Thermal Units (the common measure of heating energy) last year.

Pacific Gas & Electricity, the largest power utility in the US and a party to the agreement, has allocated $2bn to customer energy efficiency programmes in the 1990s. With this investment the company hopes energy bills will be cut by more than $2bn net by 2000.

Last year more than $188m was spent on some 50 programmes, resulting in a saving of 491m kwh of electricity. More than 600,000 customers participated in energy efficiency initiatives last year.

For one scheme last year the company paid $30,000 to replace 150-watt incandescent traffic signals with energy-saving 25-watt light emitting diodes (LEDs) in the city of Davis.

In spite of these efforts, however, the company failed to meet its 1993 targets on energy efficiency, partly, it claims because of reorganisation and the loss of 3,000 jobs.

In France, the state gas company Gaz de France has a team dedicated to encouraging energy efficiency particularly through the installation of combined heat and power plants.

Jean-Pierre Roncato, head of the cogeneration development mission, says that by using CHP plants 85 per cent of the gas used in generation can be recovered and used for both electricity and heating.

This year the company has started 30 CHP projects compared with just four in 1991. At the same time it is installing boilers with high-energy conversion capabilities.

"Being fuel efficient is a strategic idea for us," says Roncato. "It's important as far as our image is concerned to supply an efficient product which uses natural gas."

Up to 75 per cent of France's energy needs is supplied by nuclear electricity. Gaz de France supplies only a fraction of the country's total energy but is hoping that by stressing fuel efficiency – and by offering price warranties to allay fears of a gas price rise – it can increase its share of the market.

■ **Profile:** ROBERT JONES MP

Britain's new Mr Save-It

Poacher turned gamekeeper

The task of making Britain more energy efficient belongs to Mr Robert Jones, the newly appointed junior minister at the Department of the Environment. Although the UK has previously had energy ministers with a brief to raise energy efficiency, this is the first time anyone has formally carried the title.

It was an unusual choice. Mr Jones was previously chairman of the Select Committee on the Environment in the House of

Robert Jones: backbench critic gets a ministerial role

Commons where be grilled ministers and officials on Britain's rather mixed performance on energy saving. Last year, he produced a report which effectively said that government policy in the area was too weak, and put forward e string of recommendations.

Some people have therefore viewed the appointment as "poacher turned gamekeeper", though he is highly regarded in the energy efficiency business itself.

"He comes to the job with great knowledge and sympathy for the subject", says Mr Andrew Warren of the Association for the Conservation of Energy. "But people also have high expectations of what he can achieve."

Now, he is in the hot seat himself. How does the view look from there? "We are achieving a lot, but there's also a lot of complacency around," he says.

The progress has come mainly in industry, he thinks, where companies have become much more cost-conscious, and are taking serious steps to reduce energy consumption. The government is backing this up with advice schemes, help with eco-audits and management standards.

The UK is also "doing quite well" by international standards. "Our building regulations take us close to the top, well ahead of countries like Germany," he says. He is also encouraged by the initiatives taken by local authorities to save energy, and by the government'e target of reducing its own energy consumption by 15 per cent between 1991 and 1996.

The complacency Mr Jones sees is mainly in the residential/commercial sector where energy is only a small part of people's costs. Moreover, householders do not bother to compare one quarter's electricity and gas bills with the same quarter the year before, so they have little idea of the energy trends in their own homes.

"We do need to get over the fact that more than half of global warming gases come from buildings," he says.

The government has been running a publicity campaign to sharpen people's awareness of the risks of global warming. It recently turned the pressure up with a fresh campaign whicb is supposed to make them actually do something about it. The £6m campaign, using the message "Wasting energy costs the Earth", is based on dinosaur figures because they eppeal to children who tend to be much more responsive than adults to appeals of this kind.

Mr Jones has also been asking banks to provide free energy ratings for homes when advancing mortgages to house purchasers. From next July, new building regulations will require all new dwellings to be given an energy efficiency rating.

The campaign comes on top of the government's highly controversial imposition of VAT on home heating in last year's Budget. But the effects of this tax are being eroded by the decline in gas and electricity prices. Does Mr Jones think taxes should be pushed up further to keep up the pressure?

"Rather than jack up energy taxes, I would prefer to concentrate on educating people," he says. "We don't want to add unnecessarily to their costs."

In fact, the trend in prices reinforces the government's view that it needs to use other weapons besides price, such as persnasion, publicity, and pump priming exercises, particularly for low income households. But Mr Jones opposes further legislation to enforce energy efficiency. In a recent House of Commons debate, be told MPs that he thought sufficient progress was being achieved without adding to the legislative burden.

This concern about costs also lies behind Britain's resistance to an EU plan for a carbon tax, which Mr Jones thinks would greatly harm the competitiveness of European industry if it was imposed unilaterally. "We should look at this on a world basis," he says.

'We need to get over the fact that buildings emit more than half the global warming gases'

Mr Jones concedes that there is still doubt about the seriousness of the risk of global warming. But he says this is expressed "by a tiny minority of scientists". And he believes that energy efficiency is still a worthy goal in its own right because it increases industrial competitiveness, and saves householders money.

He remains confident that the UK will be able to reach its target of reducing CO_2 to 1990 levels by the year 2000 under its Earth Summit commitments. The next point to be considered is what happens after that, and international negotiations have only just started.

David Lascelles

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UK has no target but could do 20% better, **David Lascelles** reports

Don't forget the dinosaurs

You are looking at a model of the Dinodome" said Mr John Gummer, the environment secretary, with an embarrassed laugh. On the table before him stood a plastic dome with models of what looked like dinosaurs wearing human dress.

In fact, that was precisely what they were. Mr Gummer was launching the government's latest energy efficiency drive: "Wasting energy costs the earth" – a campaign is typical of the policy adopted by the government to encourage energy efficiency in the UK.

It is based on what it calls "partnership", a voluntary effort by government, home-owners and businessmen to work together to achieve the energy reduction goals. Shortly after the dinosaurs were launched, the government squashed an attempt by opposition parties to introduce an energy efficiency Bill into parliament on the grounds that it would add to costs and regulation.

There is no official target for energy efficiency in the UK, though Mr Robert Atkins, one of Mr Gummer's ministerial colleagues, told parliament that he believed the UK economy could operate on 20 per cent less energy than it does to-day. The more constraining target is the UK's commitment, made at the Rio Earth Summit, to bring carbon dioxide emissions back to 1990 levels by the year 2000. This implies e cut of some 10m tonnes e year, or about 6-7 per cent.

However, the government's own research shows that despite earlier publicity campaigns to raise awareness of global warming issues the public's knowledge is still poor: one official poll showed that nearly half the population confuses the issues of global warming and the ozone layer. The public's willingness to invest in energy efficiency is also low. A poll by Projects in Partnership, an independent group funded by the Department of the Environment, found homeowners "disinterested, confused and mistrustful".

A year ago, the government took what it thought was a big step forward in persuading people of the value of energy saving investment when it extended – after long deliberation – value added tax to home heating. VAT was introduced at 8 per cent last April and will rise to the standard rate of 17½ per cent next April. Although this conflicted with the "partnership" idea, the temptation for the Treasury to cash in on pressure for greater energy efficiency was evidently irresistible.

However, the impact of this measure is already being eroded by the steady decline in gas and electricity prices which has been caused by deregulation and privatisation of the gas and power utilities. Some specialists believe that the entire effect may be offset by the end of this decade – in which case further measures may be needed to get the 1.5m tonne CO_2 saving which VAT was supposed to deliver.

This could strengthen the chances for further development of nuclear power. Mr Michael Heseltine, president of the Board of Trade, is currently reviewing the future of the nuclear power industry, and he will weigh the contribution that N-stations can make to reducing greenhouse gases when deciding whether to euthorise construction of further nuclear capacity.

The government wants a partnership with home owners and business

Meanwhile, the government suffered another setback when the regulators of the gas and electricity industries refused to sanction further levies on consumers to fund the Energy Saving Trust, the agency which the government had set up to subsidise and promote energy efficiency projects. Mr Eoin Lees, the EST's chief executive, still hopes to be eble to promote various schemes, such as low energy light bulbs and self-financing improvements. But until the government devises alternative ways of providing long-term funding, the EST will not be able to fulfil its promised role.

Instead, much of the official energy saving effort is being directed through Neighbourhood Energy Action, a government sponsored charity which has a budget of £75m to help the beating problems of low income households.

A recent report by the Gas Consumers Council and the EST concluded that the market for energy services (helping customers make better use of the energy they buy) will not be belped by deregulation, at least in the short term. Deregulation will stimulate competition to cut prices, and energy saving will be sidelined.

The report says: "Price reductions cannot go on indefinitely. But whilst customers can get significant savings just by signing a new supply contract, why should tbey be interested in having new process equipment or heating controls/insulation fitted?"

The picture in industry is better. A recent report by Touche Ross, the accountants, showed that energy intensive industry has taken steps to cut its power bills because of the strategic importance of energy costs. But less intensive industries still tend to treat spending on energy efficiency as discretionary rather than vital.

Mr Simon Lloyd, the marketing director of BP Energy, one of the country's largest industrial contract energy companies, says that energy management has only "scratched the surface" of the country's annual £9bn energy bill. "But attitudes are changing very fast now", he says, as companies try to cut costs and protect themselves from the risk of changing energy prices.

However, this has yet to feed through to widespread use of combined beat and power schemes. The government has a target of 4,000MW of additional capacity, but so far only about 1,000MW has been built.

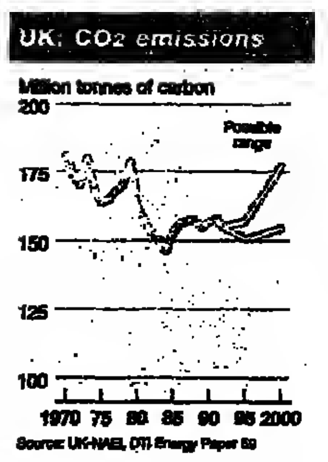
Mr David Green, director of the Combined Heat and Power Association, says that projects have been squeezed by adverse trends in power prices. Electricity prices are falling, while contracts for gas on which CHP schemes are based have been going up, contrary to the trend for gas generally.

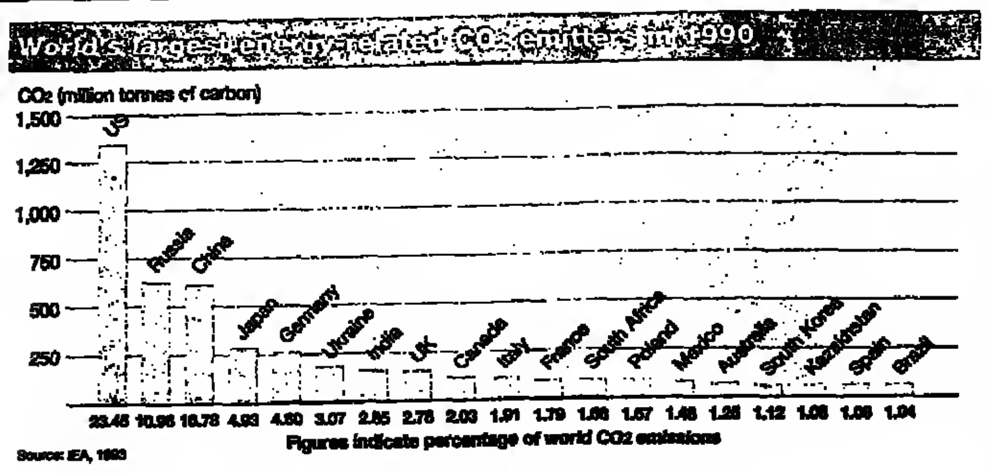
Mr Green thinks the government should require all new power schemes to provide heating as well – something it could enforce since the Department of Trade and Industry has to approve all new electricity generation projects over a certain size. This is the case in a number of other European countries, such as Denmark, he points out, but government officials are unsympathetic, taking the view that CHP "should be able to stand on its own two feet".

One aspect of power generation which does get financial support is alternative energy. The government will shortly announce e new round of subsidy for renewable energy projects, though with public opposition to wind power now increasing, even this aspect is not without controversy.

A further area where the government is being pressed is transport. The recent report of tbe Royal Commission on Environmental Pollution called for a massive redirection of resources away from roads towards public transport and other means of reducing traffic on grounds of pollntion control and energy efficiency.

However, the report received e cautious welcome from ministers because it challenges many key aspects of government policy: the preference for roads, the reluctance to subsidise public transport and the planning process. It does, however, reinforce the policy of increasing fuel taxes, whicb the government must welcome.





Global warming experts think again, writes **Bronwen Maddox**

The problem is in the east

Fears about global warming have provided much of the impetus behind the energy efficiency programmes of Western countries. But governments have been slower to introduce many long-promised measures than environmentalists hoped.

Meanwhile, some politicians, economists and industrialists are now questioning the scientific basis for these fears.

For some yaars scientists have heen predicting that if concentrations of "greenhouse gases" in the atmosphere continued to increase, the earth could warm up.

Governments took those predictions seriously enough to agree, at the 1992 Rio Earth Summit, that the risk deserved their attention. Industrialised countries pledged to draw up plans for bringing emissions of greenhouse gases back to 1990 levels in tha year 2000, while developing countries committed themselves to promoting energy efficiency.

The main greenhouse gas is carbon dioxide, produced when organic material, including fossil fuels, is hurnt. Policies to combat global warming hava therefore concentrated on limiting carbon dioxide. Emissions of other gases which are incriminated, such as methane, are harder to measure and to control, and have so far inspired less political effort.

Governments' main policy tool in trying to draw up plans for curbing carbon emissions has been higher taxes on energy in order to encourage more energy efficiency. However such proposals have run into fierce political opposition in many countries.

In the European Union, the proposed tax on energy and its carbon content has stalled, even though this is the only tool the EU has at its disposal for meeting the Rio targets. US President Bill Clinton's proposals for energy taxes, drawn up after Rio, met a similar fate. In the UK, the government's decision to introduce value-added tax on heating fuel provoked a ferocious political row, although steep annual increases on motor fuel and car licences have proved less controversial.

Moreover, in the past few years, some of the political momentum has been taken out of the issue by recession, which has proved unexpectedly effective at restraining emissions. It has, just ee importantly, reduced the amount of money available in many countries for spending on meaeuree to encourage energy efficiency directly, such as household insulation.

At the same time, a chorus of scepticism about the level of the threat posed by global warming has become louder. It has questioned the legislative and economic effort devoted to the problem, and arguably has made it harder to force through politically controversial measures.

The essence of the science which underpins the predictions is not contested. Physicists agree that greenhouse gases can trap heat which is emitted from the earth's surface and so prevent it passing into space.

But there is still scientific disagreement about the prediction that if the concentrations of these gases build up, the earth will warm up. There is even more disagreement about the amount of warming that might reasonably be expected.

The best current predictions of the four leading models of climate change used worldwide suggest that, if carbon dioxide levels double, the world will warm up by between 1.9C and 5.2C from existing levels.

Mr Bruce Callander, head of the working party which weighs up scientific research for the United Nations Intergovernmental Panel on Climate Change, ecknowledges that there are still problems with the models. Taking account of the behaviour of clouds and oceans remains the biggest difficulty, he says.

While the IPCC is emphatic that the risk of warming should be taken seriously, it points out too that scientists will need years more data before they know whether the predictions are accurate.

Global warming is one of the most difficult examplee of a conundrum which politicians increasingly fece: how to make policy, which may have considerable economic repercussions, when science is uncertain.

Cost-benefit analysis, of the kind now modish in environmental economics, offers little assistance in the case of global warming, given that the probabilities of the threat are so hard to calculate.

Moreover, there is intense debate, both scientific and economic, about whether a small degree of warming in the earth's atmosphere would be harmful or beoeficial. Some countries, such as Russia, have suggested that they could benefit, as they would be able to farm previously ice-bound regions.

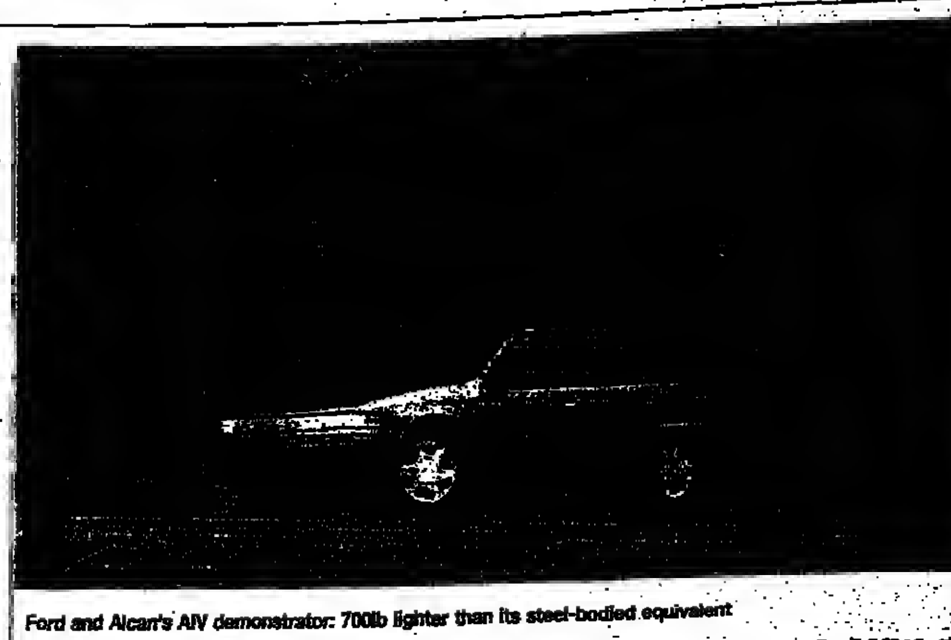
Such points have highlighted ooe of the most controversial aspects of the international debate on climate change: the unequal distribution between countries of the costs of warming, and the costs of mitigation.

Increasingly, as they try to put together plans to meet the Rio stipulations, industrialised couotries are wondering whether they would do better to spend money helping improve energy efficiency in developing countries.

The collapse of the former Soviet Union and Eastern European economies has temporarily restrained the rise of global emissions. But although the introduction of new technology into Eastern and Central Europe is greatly improving their energy efficiency, the emissions from those countries will soon begin to rise again as their economies pick up.

Meanwhile, the industrialisation and the population growth of China and India, and China's heavy dependence on coal, means that their carbon emissions are rising steeply.

As developed countries which have ratified the Rio convention struggle to persuade their citizens to turn off lights as they leave the room, put only one cup of water in the kettle and walk rather than drive to the shops, they are beginning to ask more urgently than before whether the most efficient way of tackling global warming is not to start with the energy consumption of the developing world.



Ford and Alcan's AIV demonstrator: 700lb lighter than its steel-bodied equivalent

Aluminium cars are coming, says **John Griffiths**

Easier on the gas

A UK Royal Commission report on environmental pollutinn, expressing concern at worsening air quality in urban areas, in October called for the fuel efficiency of the typical family car to be increased by 40 per cent nver the next 11 years.

It provided no concrete suggestions as to how this might he achieved. Motor industry chiefs immediately rejected the call as "technically impossible".

What they really meant was that over that period cars conld be made very mnch more frugal with fuel than they are now. But to come anywhere near the Commission's target would not nnly mean using all the technology and new materials now becoming availahle hnt would require cars to be made much more austere than even the greenest-minded driver could accept.

There is a motor industry rule of thumb that if a car can be made 10 per cent lighter, it will go 6-7 per cent further per unit of fuel consumed.

If electric windows, central locking, sunroofs, andin systems, air-conditioning and other non-essentials were to be tossed out – along with the mass of motor, servos, actuators and other hardware needed to operate them – a weight saving of around 25 per cent should be achievahle. (The first Volkswagen Golf of 1974 weighed 250kg less than the 1,000kg of the current version.)

The saving would be considerably higher yet if anti-lock brakes, airbag systems, side anti-intrusion bars and other recent safety innovations were abandoned.

Without all this heavy equipment, fuel consumption would be further cut by being able to use a smaller engine and lightersuspension and wheels.

Clearly, only the most militant environmentalist would advocate snch a radical approach (particularly since some of the extra weight comprises catalytic converters for exhaust emissions).

In energy efficiency terms, therefore, the new car nf the year 2005 is much more likely to be a compromise.

While all this heavy equipment will stay on board, fuel savings will come partly from further improvements in internal combustion engines, both petrol and diesel.

Today's petrol engine, with mnlti-valves, fuel injection and electronic management already uses about one-third less fuel than a simpler, similarly-sized and carhurettor-fed unit in a similar sized vehicle of the 1970s.

But weight is the central factor – and the car of a decade hence seems set to shed lots of it thanks to a fierce "battle for the bodyshell" being fnught out between the steel and aluminium industries.

Volkswagen's Audi subsidiary and Aluminium Company of America (Alcoa) say that the revolutionary aluminium spaceframe body of Andi's recently-launched A8 luxury car is 40 per cent lighter than it would have been if made of steel. They also maintain that such lightweight hodies can be introduced cost-effectivaly in high-volume production cars within a decade.

> If a car's weight is cut by 10 per cent, it should go 6-7 per cent further per unit of fuel consumed.

Steel makers from around the world have struck back by launching a collaborative project aimed at designing the lightest possible bodyshell using the latest, high-strength steels. They claim that a 20 per cent weight saving is possible hy optimising current designs using current mannfacturing systems, and that 35 per cent is achievable with all-new designs using the most advanced technology.

Two weeks ago, Ford, the world's second biggest vehicle maker, and Aluminium Company of Canada (Alcan) reconfirmed their determination to ensure viable production of aluminium cars early in tha next century.

Initially, just like Audi's A8, Ford expects aluminium cars to make their appearance at the top of Ford's product range and only gradually filter down into cheaper, higher-volume cars, according to Mr Bill Stueff, manager of Ford's vehicle systems engineering.

Bnt an indication of the potential is provided hy the AIV (aluminium-intensive vehicle) which the two companies are using as the showcase for their aluminium technology. It is 318kg (700lh) lighter than Ford's steel bodied Taurus/Mercury Sable model on which it is based and with which it shares almost identical equipment.

The bodyshell is 182kg, a full 47 per cent lighter than the steel equivalent; the additional 126kg difference represents the "knock-on" savings from smaller, lighter hrakes and other components.

Crucially, in Ford's view, the AIV and the processes developed by Alcan, Ford and a third partner, Ciba Polymers, allow it to be made mainly by conventional motor industry manufacturing methods, thereby avoiding the need for largescale investment in new plant and equipment.

Alcan's "AVT" (Aluminium Vehicle Technology) process uses a mixture of spot welding and bonding with a Ciba-developed epoxy adhesive to join sheet aluminium pressings. By welding and bonding, lighter gauges of aluminium can be used than would be the case with spot welding alone.

That the partners are serious is in no doubt: to date Alcan alone has spent $100m on research with current annual spending running at $10m; Ford has invested $35m and a fleet of 40 AIVs are undergoing field trials. They are said to have exceeded 50,000 miles of rough usage and will be durability tested well beyond 100,000 miles.

Many problems remain, such as the need to optimise vehicle design while remaining compatible with the plant and machinery that will still turn out steel cars for a very long time. Even Alcan admits that there will be a cost premium for such cars, although not too big to deter consumers.

The aluminium producers acknowledge that they use much more more primary energy than the steel makers. Bnt they maintain that the overall balance is tipped back in their favour by aluminium's easier recyclability and the on-road fuel savings. For example, with the 20 per cent fuel saving arising from a 25 per cent overall weight reduction, a mid-sized aluminium family car would use 600 gallons less fuel over 100,000 miles.

It is not quite that simple, however. An alnminium car would actually contain several alloys, which would have to be separated before being successfully recycled.

As Mr Don MacMillan, vice president and general manager of Alcan's automotive division, acknowledges, it is not practical to expect scrapyard workers to take three days tn take apart every scrapped car with spanners.